ANNUAL REPORT 2013

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

www.noreco.com

2013

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KEY FIGURES

(NOK million)	2013	2012	2011	2010
Income statement				
Revenue	894	832	1 616	2 146
EBITDA	(440)	(817)	(997)	699
EBIT	(1 969)	(1 508)	(1 914)	61
Result before tax	(1 954)	(1 994)	(2 381)	(424)
Net result	**(1 008)**	**(593)**	**(1 442)**	**5**
Net cash flow from operations	**1 476**	**905**	**1 294**	**731**
Balance sheet				
Non-current assets	4 797	5 411	6 809	9 611
Current assets	1 408	2 515	2 055	3 002
Total assets	**6 205**	**7 926**	**8 864**	**12 613**
Equity	1 750	2 028	2 428	3 675
Liability	4 455	5 898	6 436	8 938
Total equity and liabilities	**6 205**	**7 926**	**8 864**	**12 613**

MANAGEMENT TEAM

2013

Svein Arild Killingland (58)
Stavanger
CEO

Joined Noreco in May 2013. Killingland has 30 years experience predominantly within oil and gas upstream activity. Killingland has previously held positions in Statoil, Revus Energy and Wintershall, predominantly within upstream oil and gas business development and management, as well as a position as Senior Partner in HitecVision (2010-12). Killingland holds a degree in Economics and Management from the Norwegian School of Economics and Business Administration.

Ørjan Gjerde (44)
Stavanger
CFO

Ørjan Gjerde joined Noreco in March 2012, and has since 1996 been CFO in several companies such as IKM Gruppen AS, Proserv Group AS and Skanem AS. Gjerde has extensive experience from financial and operational restructuring, strategy and business development, mergers, acquisitions 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 Norwegian School of Economics in 1995.

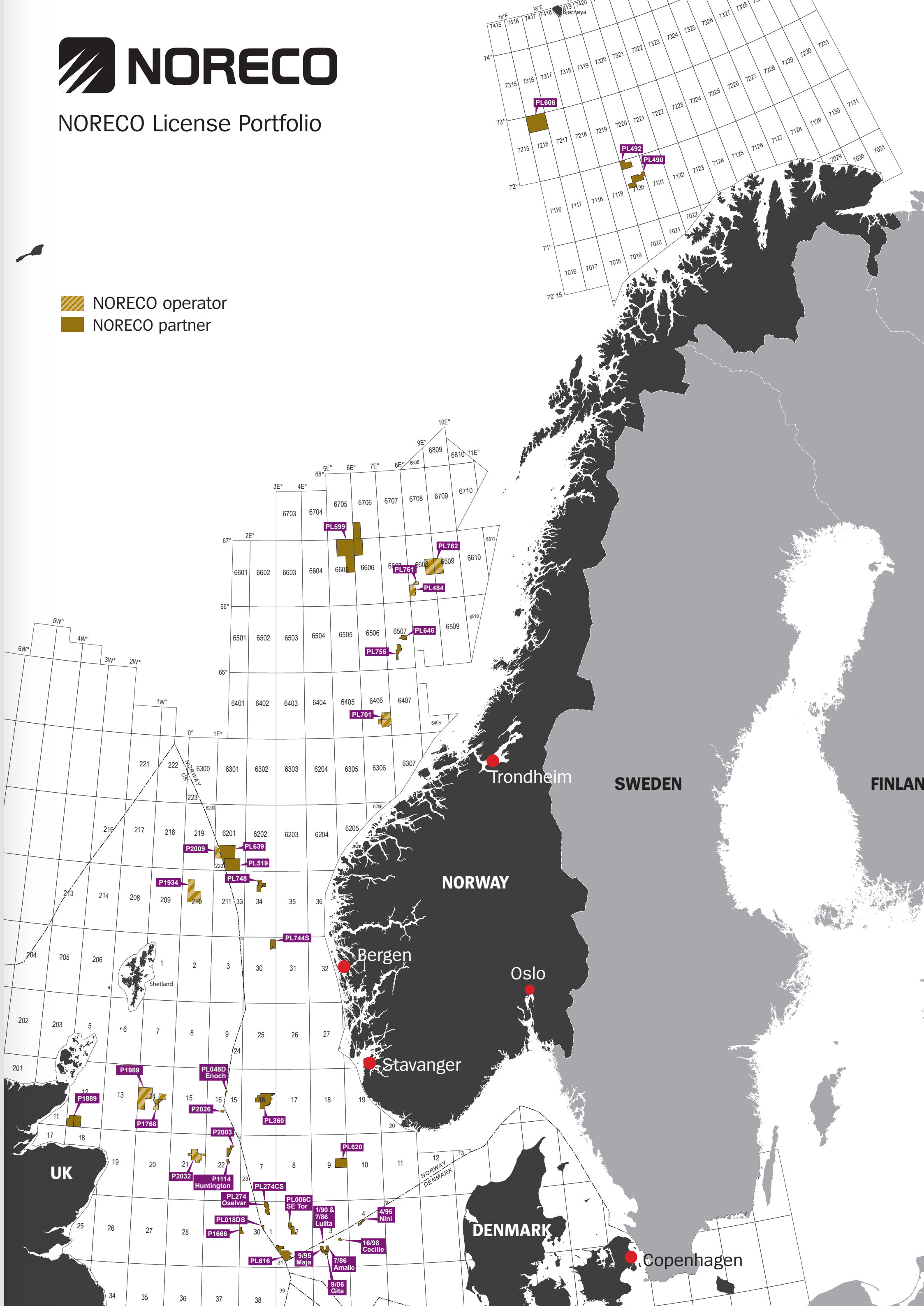
Øyvind Sørbø (46)
Stavanger
Vice President Commercial

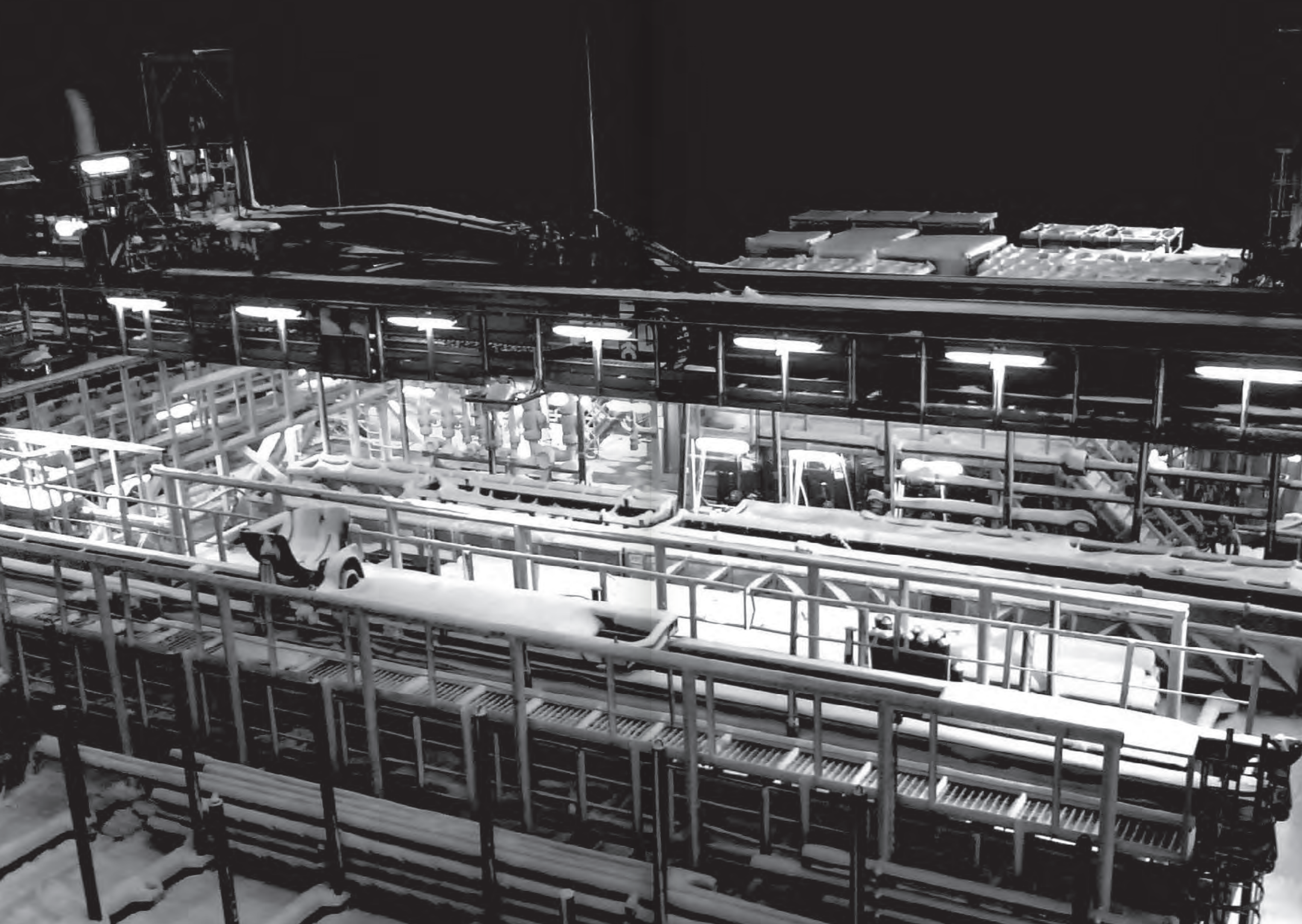
Joined Noreco in September 2006. Has worked in the oil and gas industry since 1993, and held positions in Amoco and BP within finance, economic analysis, commercial operations and business development. Held several commercial responsibilities within BP, including the role of Commercial Advisor for their producing assets. In Noreco, Sørbø has held positions as Sr. Commercial Advisor and Business Development Manager. Øyvind Sørbø holds a BA (Hons) degree in Economics and Finance from the University of Strathclyde Scotland.

Lars Fosvold (52)
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.

LICENSE PORTFOLIO





ANNUAL STATEMENT OF RESERVES

2013

Noreco's classification of reserves follows the SPE/WPC/AAPG/SPEE Petroleum Resources Management System (SPE-PRMS) published in 2007. The system is a recognised resource classification system in accordance with the Oslo Stock Exchange Circular 1/2013 "Revised 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 2013 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 2013, 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 1/2013 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 31.12.2013

	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	0.9	0.0	0.9	30.0	0.3	2.1	0.0	2.1	30.0	0.6
Nini East	2.6	0.0	2.6	30.0	0.8	6.5	0.0	6.5	30.0	2.0
Cecilie	0.0	0.0	0.0	61.0	0.0	1.5	0.0	1.5	61.0	0.9
Lulita	0.8	3.0	1.3	28.2	0.4	0.9	3.7	1.6	28.2	0.5
Enoch	1.7	0.0	1.7	4.4	0.1	2.3	0.0	2.3	4.4	0.1
Oselvar	7.4	18.2	10.7	15.0	1.6	13.2	53.6	22.8	15.0	3.4
Huntington	22.1	10.7	24.0	20.0	4.8	35.4	21.1	39.2	20.0	7.8
Total					7.9					15.3

Under development (approved for development) as of 31.12.2013

	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

Non-developed assets (justified for development) as of 31.12.2013

	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	1.2	0.0	1.2	30.0	0.3
Total					0.0					0.3

Total reserves as of 31.12.2013

	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	0.9	0.0	0.9	30.0	0.3	2.1	0.0	2.1	30.0	0.6
Nini East	2.6	0.0	2.6	30.0	0.8	7.7	0.0	7.7	30.0	2.3
Cecilie	0.0	0.0	0.0	61.0	0.0	1.5	0.0	1.5	61.0	0.9
Lulita	0.8	3.0	1.3	28.2	0.4	0.9	3.7	1.6	28.2	0.5
Enoch	1.7	0.0	1.7	4.4	0.1	2.3	0.0	2.3	4.4	0.1
Oselvar	7.4	18.2	10.7	15.0	1.6	13.2	53.6	22.8	15.0	3.4
Huntington	22.1	10.7	24.0	20.0	4.8	35.4	21.1	39.2	20.0	7.8
Total					7.9					15.6

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 31.12.2012	6.4	13.1	5.3	8.8	0.0	0.0	11.7	21.9
Production	(1.5)	(1.5)	-	-	-	-	(1.5)	(1.5)
Aquisitions/disposals	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-
New developments	5.3	8.5	(5.3)	(8.8)	0.0	0.3	0.0	0.0
Revisions of previous estimates	(2.3)	(4.7)	0.0	0.0	0.0	0.0	(2.3)	(4.7)
Balance as of 31.12.2013	7.9	15.3	0.0	0.0	0.0	0.3	7.9	15.6

For conversion between gas volumes (scf) and oil equivalents (boe), Noreco has used 5600 scf equals 1 boa.

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 the producing wells. Reserves are approximately 40% lower than last year after accounting for the 2013 production due to well performance.

Nini East, DCS, operated by Dong Energy, Noreco 30 percent
The reserves assessment of Nini East is based on detailed reservoir modelling. The reserves for a new production well are included in the Justified for Development category. Reserves are approximately 2% higher than last year after accounting for the 2013 production.

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 decreased by approximately 25% 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. The Lulita field is produced with a single well and there is potential for infill drilling (sidetrack). New seismic is being interpreted to address future possibilities. However, no firm plan exists and consequently there are no undeveloped reserves booked for Lulita. Reserves are unchanged since last year.

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 in 2013. The 2P reserves have been kept unchanged.

Oselvar, NCS, operated by Dong Energy, Noreco 15 percent
The Oselvar field was put on production 14th April 2012. The reserves assessment of the Oselvar field is based on new reservoir modelling and 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. The 2P reserves are approximately 55% lower than last year after accounting for the 2013 production.

Huntington Forties, UKCS, operated by E.ON Exploration and Production, Noreco 20 percent
The Huntington field was put on production 12th April 2013 about half a year after the production vessel (FPSO) Voyageur Spirit was installed on the field. Noreco's reserve estimate of the Huntington Forties reservoir is based on the company's own reservoir modelling, the new development wells together with recent production history. The 2P reserves on Huntington have been kept unchanged.

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 resources, reference is made to Noreco's homepage www.noreco.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

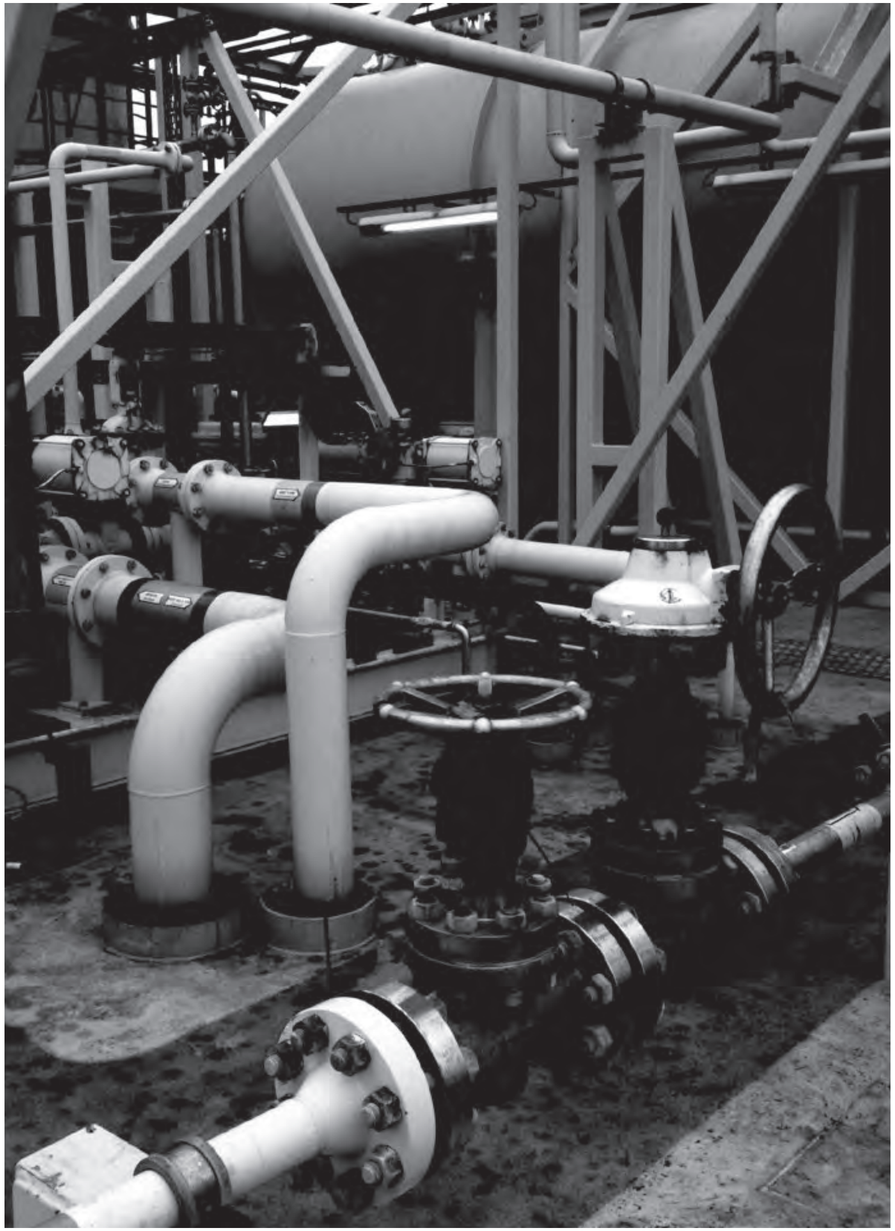
The reported reserve estimates are based on standard industry practices and methodology such as decline analysis, reservoir modelling and geological and geophysical analysis. The evaluations and assessments have been performed by engineers with extensive industry experience, and the methodology and results 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 licenses.

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 license documentation. DeGolyer and MacNaughton performed an independent review of reserves on this basis. The independent review concludes with a reserves estimate that is ten 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 15.6 million barrels of oil equivalents (boe) compared to 21.9 million boe in the year end 2012 reserves statement. This decrease is mainly a result of Oselvar write downs and Noreco's production of 1.5 million boe in 2013.

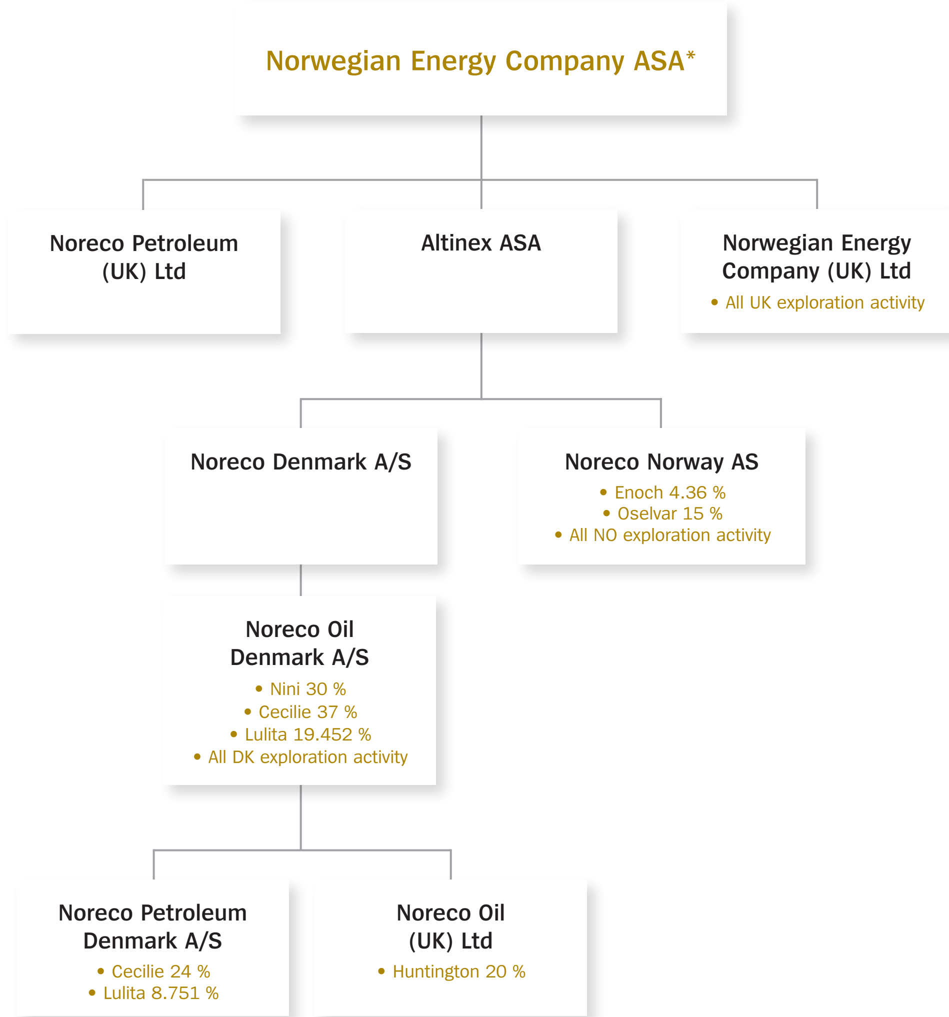
Svein Arild Killingland
CEO, Noreco



NORECO GROUP

NORECO GROUP

2013



* All companies 100 % controlled by parent

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's board and management shall endeavour 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 (with correction of 21 December 2012) (hereinafter the "Code"), However, as of the date of this annual report, Noreco is not in full compliance with the Code.

Noreco deviates 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 are present at the General Meetings, that one of the members of the nomination committee are present in the event that an election is on the agenda, and that the auditor is present when the General Meetings discusses the annual accounts, or other matters in which the auditor's presence may be useful.*
- *The company's nomination committee consists of three members, whereof the chairman, Tom Henning Slethei, together with close associates own 90 000 shares in Noreco. Ole Rettedal is the CEO of IKM Industri-Invest AS which owns 18.19 per cent of the shares in Noreco. Ole Rettedal himself owns together with other close associates 0.23 per cent of the shares in Noreco. The final member, Morten Garman, lawyer and partner in Gram, Hambro & Garman law firm, 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 Noreco's corporate governance policies and procedures on a regular basis, and recommends any proposed changes to the Board for approval.

The Board has defined Noreco's basic corporate values, and its ethical guidelines and guidelines for corporate social responsibility are in accordance with these values. Further information on and an English translation of the Code are available on www.ncgb.no.

The Public Limited Liability Companies Act (hereinafter the "PLCA") and the Securities Trading Act are available in unofficial English translations on 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 publicly owned independent E&P company listed on Oslo Stock Exchange. From inception, The Company has combined strong commercial principles with a long-term growth perspective. Confidence in Noreco and its businesses is essential for Noreco's competitiveness and value creation.

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

Noreco's vision is to be one of the leading independent oil and gas companies whose activities are focused in the North Sea area (Norway, Denmark and United Kingdom). The Company provides value creation for all its shareholders by building an optimised portfolio of exploration, development and production assets.

To achieve its vision, Noreco is actively participating in exploration rounds and asset activity, as well as building on core areas were Noreco has the understanding and knowledge to develop unique value creating options for The Company and its shareholders. Further, Noreco endeavours to create values in the core areas through competence and commitment to generate activity and take calculated 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 on Noreco's assets and sustainable growth in portfolio and capability.

Noreco believes that its integrity and standards are critical to Noreco's sustainability and value as a company, and that success is both about achieving the right results and delivering in the right way.

Noreco's business decisions and actions are made in accordance with the following values:

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

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

Noreco is aware of the effect our business has on society. The basic principles for corporate social responsibility that The

Company will follow are outlined in our policy for corporate social responsibility.

Equity and dividends
After the refinancing of the Company in the autumn of 2013, Noreco's equity is considered to be adequate to Noreco's objectives, strategies and risk profile. Noreco has not previously paid any dividends, and it does not expect to pay ordinary dividends to its shareholders in the near future. However, the Company aims over time to give shareholders a competitive return on capital relative to the underlying risk. Any future dividend payment will be subject to determination based on Noreco's results and other factors the Board finds relevant.

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

Presently, the General Meeting has granted the Board with the authority to increase the share capital of Noreco by issuance of up to 4 608 998 shares to be utilised in connection with the incentive scheme for the group's employees. The proxy is valid until 1 June 2014.

Equal treatment of shareholders
Noreco only has 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 publicised in a stock exchange report linked to the capital increase.

Transactions regarding the company's own shares
For the time being, Noreco is not authorised 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 way of appropriate procedure.

Transactions with close associates
There have not been any other transaction of significance with closely related parties during 2013.

If Noreco should enter into a not immaterial transaction with any of its associated parties within The Company or with companies in which a Director or leading employee of Noreco or close associates of these have a direct or indirect vested interest, those concerned shall immediately notify the Board. Any such transaction must be approved by the CEO and the Board, and where required also as soon as possible be publicly disclosed to the market.

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

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

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

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

The calling notice will be distributed to all shareholders no later than 21 days before a general meeting, cf. Noreco's Articles of Association section 10. However, the Company also has the opportunity to call a general meeting with a 14 days' notice period.

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 on the date of the distribution of the notice of the general meeting. The resolutions and the supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting.

The calling notice includes a reference to Noreco's website where the notice calling the meeting and other supporting documents are made available. As the supporting documents are made accessible for the shareholders on 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 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 chairman of the Board shall chair the General Meeting, if the Board has not decided to appoint an independent chairperson.

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

Nomination Committee
The Nomination Committee consists of three members elected by the General Meeting. An extraordinary general meeting was held on 4 February 2014, where Tom Henning Slethei (chairman), Ole Rettedal and Morten Garman were elected as members of the Nomination Committee. Tom Henning Slethei owns together with close associates 90 000 shares in Noreco. Ole Rettedal is the CEO of IKM Industri-Invest AS which owns 18.19 per cent of the shares in Noreco, and Ole Rettedal himself owns together with close associates 0.23 per cent of the shares in Noreco. Morten Garman 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 state 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 4 meetings in 2013. 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.

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 five members, whereof two are women.
The current shareholder elected directors were appointed at the General Meeting held on 4 February 2014.

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.

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 2013 the Board held 29 board meetings. During 2013, an average of 6 directors participated in the board meetings.

The Board has the overall and ultimate responsibility for the management of Noreco and for supervising its day-to-day management and activities in general.

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

In accordance with the provisions of the PLCA, the terms of reference for the Board are set out in a formal mandate that includes specific rules on the work of the board and decision-making. The chairman of the Board is responsible for ensuring that the work of the Board is carried out in an effective and proper manner in accordance with the relevant legislation.

The Board annually prepares 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 two members elected by and among the Board.

Hilde Drønen (Chairperson) and Marika Svärdström are currently the members of the committee. In addition, Noreco's CFO and group finance manager attend 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. The committee's purpose and responsibilities are stated in a charter approved by the Board. David Gair, Morten Garman and Erik Henriksen are 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.

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.

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 Cision 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, obstruct or complicate takeover bids for Noreco's activities or shares unless there are particular reasons for this. The Board is responsible for making sure that the requirement on equal treatment in regards to the shareholders is upheld and that they have received sufficient information to decide upon any possible offer.

In case of offering for the shares in the Company, the board shall not use granted authorities or other initiatives with the purpose of complicating the carrying out of the offer unless such action was approved by the General Meeting.

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 will consider arranging a valuation from an independent expert which includes an explanation.

The Company shall only enter into agreements containing limitations on acquiring other offerings on the shares when this is clearly in the best interest 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 simultaneously with the offer being made public.

Transactions which in reality mean a transfer of all of the Company's 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 year-end audits for the year concerned, and the auditor presents to the audit committee a review of Noreco's internal control procedures.

Annually, the auditor presents to the Board a review of Noreco's internal control procedures. The auditor participates in the meetings of the Board that deal with annual accounts. The Board regularly reviews the relationship to ensure that the auditor is fulfilling an independent and satisfactory control function. The Board reports the remuneration of the auditor at the General Meeting for the approval of the shareholders.

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

2013

Morten Garman (67)
Chairman

Garman is an attorney-at-law, and has wide experience as counsel in most areas of business law, including comprehensive assistance in financing. He works with stock exchange and securities law, corporate law, international law, contract law, transport law, litigation in construction and offshore contracts, and he also acts as an arbitrator in disputes within these areas.

Morten Garman has comprehensive board experience and holds directorships in large Norwegian corporations and foreign companies with international activities.

Hilde Drønen (52)
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).

Marika Svärdström (48)
Board member

Marika Svärdström is an advisor to Sabaro Investments Ltd. She holds an MBA from IMD in Switzerland and a M.Sc. in Energy technology from Lund Institute of Technology in Sweden. Svärdström has 20 years of international and commercial experience in industries including financial services, the energy sector and telecom/IT. Previous roles include member of the executive management team at Skandiabank (Switzerland) AG and leadership positions within product and services innovation, strategy and marketing at GE Capital and Vattenfall AB, among others. She has lived and worked in Switzerland, Hong Kong, UK, France and Sweden.

Erik Henriksen (56)
Board member

Erik Henriksen is an advisor to Sabaro Investments Limited. He has a diploma in International Shipping from London School of Foreign Trade. Henriksen has been a founder, developer and investor in various companies over the last 30 years including Telecomputing ASA, Intelecom ASA, Discoverer ASA, Tanker Navigation ASA (all companies have been listed at the Oslo Stock Exchange) as well as many private companies including Trader Navigation (UK) Limited. Earlier in his career he worked for F.H. Lorentzen & Co., Oslo, Stolt-Nielsen Group (Oslo and the US), R.S. Platou (Oslo and Hawaii) and was in charge of a joint venture company between R.S.Platou and the Erling Lorentzen Group in Rio de Janeiro, Brazil.

David Gair (61)
Board member

Gair has an international petroleum engineering background, and years of experience from executive E&P leadership and M&A delivery in BP and Royal Bank of Canada. Gair is a chartered engineer from the Institute of Petroleum, and holds a Bsc (Hons) in Industrial Chemistry from Kingston University.

Bård Arve Lærum (44)
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 Subsurface Manager in Noreco.

Hilde Alexandersen (47)
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 exploration and production company engaged in the exploitation, development, and acquisition of oil and gas fields. The company's vision is to be a leading independent company in the North Sea area.

The company's strategy is focused on the 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 located in Norway, Denmark and the UK, with offices in Stavanger (head office) and Lyngby outside Copenhagen.

The company's vision, values and strategy are described on the company website www.noreco.com. The company's social responsibility (http://www.noreco.com/en/About-us/CSR/) and guiding principles for corporate governance are also documented there. These policies are reflected in more detailed governing documents, procedures and routines and are the basis for all day-to-day corporate activities. These policies are available for all employees in the internal management system.

Exploration
In 2013 Noreco continued to exercise its exploration strategy which is designed to increase value creation through the identification, evaluation and drilling of exploration prospects. Criteria such as chance of discovery and potential commercial attractiveness have been further emphasised, and the company has concentrated its exploration activities in selected key areas where the company has specific technical competence and experience.

In 2013 Noreco completed drilling five exploration wells. Two wells did not encounter hydrocarbons. In two wells, the reservoir interval was of poorer quality than expected, and the discoveries were deemed non-commercial. The last well was spudded in the third quarter and was drilled on the Gohta prospect located in the Lundin operated PL492 licence in the Barents Sea. Resources are currently estimated to be between 111 and 232 mmboe, and plans are now in place to drill an appraisal well in 2014. Noreco has a 20% working interest in the license.

Noreco has continued to mature and manage its portfolio of exploration licences. As part of this process, numerous licences have been relinquished as material prospectivity could not be confirmed, and new licences have been acquired through licensing rounds. Two new licences were acquired as part of the APA 2012 awards (PL701 & PL591B), and six new licences were obtained through the UK 27th Licensing Round (P1934, P1989, P2003, P2009, P2026, & P2032). The APA licensing rounds in Norway give Noreco continued access to prospectivity in well-understood and mature plays. Noreco was awarded five licences in the APA 2013, two of these as operator.

During 2013 Dong Energy, as operator of the Danish licence 7/86 containing the Amalie discovery, proposed to relinquish the licences on the grounds that the resource potential of the Amalie discovery did not justify further appraisal. In addition, part of the Danish licence 9/06 was relinquished, thus reducing the net resources to Noreco related to the Gita discovery.

Production and developments
Noreco's production in 2013 averaged 4 099 barrels of oil equivalents per day (boepd). This was significantly lower than expected, mainly due to a delayed production start at the Huntington field and the shutdown of the Siri production facilities in summer 2013.

The Nini (which consists of Nini and Nini East) and Cecilie fields on the Danish continental shelf recorded good productivity during the first half of 2013. However, in periods of adverse weather conditions, operational restrictions impacted regularity at the host platform.

In July 2013, cracks were discovered in the caisson on the Siri platform. This led to a complete production shut down and de-manning of the platform. During the autumn of 2013, a number of actions were taken to re-establish production. In December 2013, the relevant authorities granted approval to restart production using a temporary solution of transferring the stabilised crude directly to a tanker. At the time of this report, production from Nini is 2 000-3 000 boepd net to Noreco.

As a consequence of the pressure build-up after the extended shutdown, production was higher immediately following start-up. In the coming months, production performance is expected to stabilise at lower levels. Production on Cecilie is expected to resume during the second quarter of 2014.

The operator has started a large repair project on the Siri Platform. This work is planned completed in the third quarter 2014 and is important to securing stable production from the satellite fields in the future.

The Oselvar field came on stream in April 2012, and production has been considerably lower than anticipated in the plan for development and operation. In November 2013, the operator submitted a revised plan for further development of the field. It was concluded that the risk attached to a new well was too high and that it is not possible to achieve the previously expected output levels. New reserve estimates for the field were calculated on this basis. The reserve estimates on 31 December 2012 were 7.7 million boe (2p). Revised reserve estimates per 30 September 2013 were 3.23 million boe.

At the Huntington field, significant delays occurred in connection with upgrading the floating production and storage platform (FPSO) Voyageur Spirit. As a result of the delays, installation was postponed into the winter season which caused further delays due to weather conditions. On 12 April 2013, production eventually started, but output was considerably lower than planned. Reduced output continued through 2013 due to challenges with the processing facilities on the FPSO,

gas export restrictions, and poor weather conditions. At the time of this report, the production has stabilised around the expected plateau level.

Financial position
In October 2013, it became evident that Noreco's financial challenges were critical. Sustained production problems at Huntington, the continued shutdown of Danish fields, and a demand for a guarantee for the abandonment obligation in Denmark led the banks in the reserves based lending (RBL) consortium to not approve a continuance of the previously approved waivers. Furthermore, the banks prevented Noreco from transferring cash from the Danish subsidiaries to the parent company in order to pay the current operating expenses and interest.

As a consequence, Noreco was projected to run out of cash by mid-November, and the company would have been unable to pay current obligations. On this basis, the board deemed it necessary to immediately initiate a significant financial restructuring.

After pre-sounding with the major shareholders and bondholders, Noreco presented a proposal for refinancing on 21 October 2013. The proposal called for the issuance of new equity and the restructuring of all bonds. The proposed bond structure had lower interest rates and a maturity profile that better reflected the expected future cash flows of the Group.

In the fourth quarter 2013 and January 2014, Noreco raised NOK 530 million in new equity through a private placement and a subsequent repair offering for the Company's shareholders with less than 1 million shares. Simultaneously, the company received a significant tax refund, the bond debt was restructured, and the RBL facility was paid off in full. The effects of this refinancing are reflected in the company's income statement and balance sheet at year-end 2013 with the exception of the subsequent repair offering, which totalled NOK 100 million. The restructuring of the bonds resulted in a gain of NOK 523 million which is recorded in the financial accounts.

The Group maintains two credit facilities which enable some degree of flexibility in the funding structure.

The production levels developed positively during 2014. The Huntington field has stable production, and the Nini field in Siri fairway has resumed production via the previously discussed temporary solution. As long as the company does not experience any long-term or unexpected production challenges, the financing of the operations, servicing of debt and further investments for the Group will be secured through the available liquidity, cash flows from operations and active portfolio management.

In 2012 the company initiated a reorganisation of the group structure in order to provide for more efficient operations. The reorganisation is partly completed, and the parent company Noreco ASA is now a pure holding company with all operational activities being executed in its wholly owned subsidiaries.

Financial results for 2013 Total revenues for 2013 amounted to NOK 894 million, up from NOK 832 million the previous year.

Exploration and evaluation expenses were NOK 666 million, down from NOK 1,188 million in 2012. For 2013, an expense of previously capitalised suspended wells (Amalie) of NOK 255 million was recognised. Included in 2012, an expense of previously capitalised suspended wells of NOK 397 million was recognised.

Write-downs amounted to NOK 1 211 million in 2013 compared to NOK 421 million in 2012. The write-down in 2013 is partly related to the Oselvar field which has not produced as expected since it came on-stream in the second quarter 2012 and the reserve estimates have been significantly reduced compared to prior estimates. As a consequence, total write-downs of NOK 388 million were recorded in 2013. Further, the fields in Denmark have been shutdown for the entire second half of 2013. Due to the production challenges, an expected increase in future production expenses and the lower estimated production regularity, write-downs of NOK 484 million have been recognised during 2013.
In addition, goodwill was written down by NOK 350 million, of which NOK 218 million relates to activities in the UK and NOK 116 million relates to activities in Denmark. Write-downs of goodwill related to the UK are due to updated expectations for regularity and revised estimates for the production costs of operating the Huntington field. The goodwill related to the UK is also supported by the Fulmar section of the Huntington licence. As a consequence of updated market values for comparable non-developed discoveries on the UK continental shelf, an adjustment to the valuation of the Fulmar section contributed to a portion of the goodwill write-down. The write-down in Denmark was due to the issues at the Siri platform, and the updated estimates for future operational costs related to Danish production. Write-downs of goodwill amounted to NOK 118 million in 2012.

The net operating result (EBIT) for 2013 was a loss of NOK 1 969 million, compared to a loss of NOK 1 508 million in 2012.

Net financial items was a gain of NOK 15 million in 2013, compared to a loss of NOK 486 million in 2012. A gain of NOK 523 million relating to the restructuring of the bonds has been included in net financial items for 2013. The restructuring was accounted for as an extinguishment of debt in accordance with IFRS as the terms of the new bond agreements were substantially different from the terms of the old bond agreements. The new loans are recognised in the balance sheet at market value at the time of the agreements. As a consequence, a gain on settlement of the old debt was recognised. The gain is net of transaction costs related to the restructuring of the old bonds amounting to NOK 47 million.
See further information in note 23.

The Company's ordinary result before tax (EBT) was a loss of NOK 1 954 million, compared to a loss of NOK 1 994 million in 2012.

Tax income for 2013 was NOK 947 million compared to NOK 1 401 million in 2012. The tax income in 2012 was higher than 2013 as a consequence of high exploration activity in Norway and the capitalisation of tax assets in the UK. Going forward, income from the Huntington production is expected to utilise the company's overall UK tax asset over the next couple of years. The effective tax rate for 2013 is 48 percent compared to 70 percent for 2012. The reduction is mainly due to write-downs of goodwill which have no tax impact and write-downs of the Danish assets where the tax rate is 25 percent.

The net result for 2013 was a loss of NOK 1 008 million, compared to a loss of NOK 593 million the previous year.

Net cash flow from operations in 2013 amounted to NOK 1 476 million, up from NOK 905 million in 2012. The difference between cash flow from operations and the result before tax is mainly caused by significant write-downs, the gain related to the restructuring, and expensed exploration expenditures which were previously capitalised and classified as investment activity in the cash flow statement.

Net cash flow used in investing activities in 2013 was NOK 1 031 million compared to NOK 1 136 in 2012. Noreco established a security (escrow) account amounting to NOK 570 million (equalling minimum DKK 500 million) to be used for abandonment obligations in Denmark. The cash flow in 2012 was driven by high exploration activity and investments in the development of the Oselvar and Huntington fields.

Cash flow from financing activities in 2013 was a net cash outflow of NOK 626 million compared to a net cash inflow of NOK 143 million in 2012. Significant cash inflows are related to issue of the NOR09 bond and draw-downs on the exploration loan facility. Significant cash outflows are related to payments of interest for the entire debt portfolio as well as the repayment of the RBL loan in Denmark and the current portion of the exploration loan.

Interest bearing debt, excluding exploration loans, had a book value of NOK 2 480 million (principal amount of NOK 3 102 million) at the end of 2013, compared to NOK 3 311 million (principal amount of NOK 3 401 million) at the end of the previous year. The book value of the Group's exploration loan amounted to NOK 333 million at the end of 2013, compared to NOK 573 million at the end of 2012. Total interest bearing debt had a book value of 2 813 million, of which NOK 874 million is classified as current liabilities. See further information in note 23 to the group accounts.

Total cash and cash equivalents was NOK 403 million at the end of 2013, compared to NOK 584 million at the end of 2012. Please see description of covenants in the section for the going concern assumption. Undrawn availability under the company's overdraft facility in Noreco Oil Denmark A/S amounted to NOK 18 million.

On 31 December 2013, Norwegian Energy Company ASA had restricted cash of NOK 570 million set aside as security for covering the abandonment obligation in Denmark or repayment to bondholders.
In February 2014, an agreement was reached with Dong and RWE whereby Noreco agreed to transfer DKK 445 million to an escrow account pledged in favour of DONG and RWE. The excess amount of DKK 55 million was offered to the bondholders and is expected to be paid in June 2014. The repayment will reduce the

first bond maturity of loan NOR06, NOR10 and NOR11 pro rata according to the face value of the gross principal amount of the loans.

Noreco has one reporting segment: exploration and production. In order to provide users with better insight into the company's activities, additional information about each field is provided in the annual statement of reserves. In addition, geographical information is disclosed in note 5 to the consolidated financial statements.

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 solidity and the Company's cash position are considered satisfactory for the planned activity level in 2014. However, the company is dependent on production from Huntington and the other fields during 2014 to be able to meet the future obligations.

The company's own cash forecast indicate that liquidity will be sufficient in the next 12 months, but there is a risk that headroom for the covenant can be tight after the bond maturity in December 2014 if production conditions are not in line with expectations. The covenant implies that the Group shall at all times have a minimum of NOK 100 million in free cash. The forecasts are based on a number of assumptions pertaining to future operating conditions, market conditions and the timing of certain events. If the trend through 2014 differs negatively from the forecasted development, it may be necessary for the company to implement extraordinary measures to ensure fulfilment of the loan terms and ensure sufficient liquidity to meet current obligations and debt maturities. In the Board's view, several such extraordinary and doable measures have already been identified and can be implemented if necessary. In the Board's 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 2013, or the results for 2013, 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 2013. Noreco's average realised oil price was USD 108 per barrel compared to USD 111 per barrel for the previous year. The oil price has continued at similar levels into 2014. The company's average realised price for all products was USD 102 (NOK 598) per boe for 2013 compared to USD 106 (NOK 618) per boe for the previous year.

The Board believes that market conditions as they are now will continue to support 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. However, 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.

Both the Norwegian and British market for oil and gas assets was somewhat less active than in 2012. As part of the work with portfolio management and rationalisation of assets, Noreco was involved in three license transactions as part of its active portfolio management and rationalisation of assets. There still seems to be a substantial interest in high quality producing fields while market activity for exploration licenses seems to be somewhat low. It has proven difficult to achieve the desired adjustments in ownership interests through the traditional farm-out processes.

Financial risk

Noreco's most significant risk factors are related to oil prices, exploration success, production interruption, currency exchange rates and ability to service debt. Almost all of the Group's debt has a fixed interest rate. Risk connected with interest rate changes is thereby limited.

Financial risk management is performed by a central finance and accounting function, and it is the goal of the risk management to minimise the possible negative impact on the company's financial results. Financial derivative instruments are used when appropriate to mitigate certain risk exposures.

All of the company's bond debt has a fixed interest rate, and the interest rate risk is considered low. More information on the management of financial risk can be found in the notes to the financial statements.

Production of oil and gas is the company's main earnings driver. The operation of production installations is exposed to risks of interruptions 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, the risk of it becoming more expensive to operate the fields than anticipated, or the risk of long-term production interruptions. Noreco's production is also concentrated in 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 to installations, 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 a loss of production and repair costs. Noreco has filed insurance claims to cover the loss of production income and the costs of the temporary solution which allowed production to be resumed. The company has not yet received any compensation related to these insurance claims.
The process has taken more time than anticipated due to the technical complexity of the claim. The total claim exceeds NOK 2 billion, of which NOK 359 million is recognised as a current receivable at 31 December 2013. Based on technical documentation containing third party evaluations and the insurance agreements, the company remains firm that the booked claim is covered and will be settled during the next twelve months. Thus, the receivable is classified as a current receivable. The USD amount is unchanged from 31 December 2012.

Noreco has withdrawn the standstill agreement with the insurance companies and has invited them to negotiations regarding a settlement. Negotiations are still ongoing, but have not yet led to a satisfactory solution for the case. As such, Noreco filed the writ to the Danish courts on 14 February 2014. Negotiations continue in parallel with the legal process. 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.

Noreco is involved in capital-intensive exploration and development projects. The funding of these activities primarily 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 sources.

Health, environment and safety
Noreco puts emphasis on everyone performing company activities in line with good business integrity and with respect for people and the environment. The Board believes that 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, zero unwanted incidents, and zero long-term impact on the environment. The company seeks to protect people, the environment and its assets through involvement and to improve HSEQ in all aspects of our business.

One of the company goals in the HSEQ programme is to achieve compliance and business improvements by further development and use of the management system. To fulfil this goal, the company has performed a number of activities during 2013, whereby the process owners and process responsibles have been trained in the use of the management system. In addition, Noreco has continued developing and creating new work processes and verified its management system according to the ISO 14001 standard. Another goal in the HSEQ programme is to continue efforts to prevent major accidents through systematic risk management in all decisions that the company makes. To fulfil this goal, the company has performed an extensive training programme for all members of the emergency preparedness organisation. In addition, risk management courses have been offered to all employees, and risks have been evaluated for all of the company's producing fields. Noreco is also promoting exchange of experience by engaging in close dialogue with the rest of the industry.

To fulfil the goal of strengthening the robustness, health and individual development and performance, Noreco has introduced a competence mapping module in its management system. In addition, the company has completed a safety day for all employees and their families, and all employees have been offered follow up from our physiotherapist through development of a health profile. All employees are encouraged to engage in physical activity.

The employees are key to achieving the company's goals and visions 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 being part of the HSEQ culture.

Noreco actively follows up the HSEQ work in all its licences. This mainly involves management follow-up of HSEQ in the licence control committees and inspections on the facilities. Noreco keeps statistics and overviews 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, and there were no breaches of these requirements in 2013. Noreco did not operate any exploration wells in 2013.

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

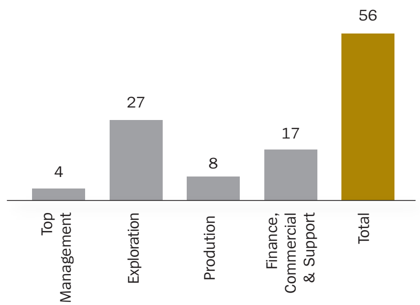
At the end of 2013, the company had 54 employees, whereof 43 are in Norway and 11 are in Denmark. Two employees in the resignation period are not included in these numbers.

Noreco has a diverse workforce with a total of nine nationalities represented: Norwegian, Danish, British, Irish, Pakistani, Polish, South African, Turkish and Mexican.

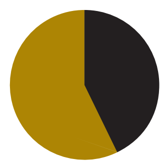
The company's Board of directors consists of three women and four men, whereof two women and three men were elected by shareholders.

At the end of 2013, 43 percent of the employees were women compared to 39 percent in 2012, 35 percent in 2011 and 33 percent in 2010. It is a goal to maintain a good gender balance in the workforce.

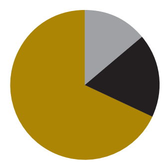
Number of employees



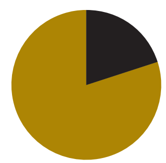
Employees' Gender



Employees' Nationality



Employees' Location



For the whole company, four of the middle management positions are occupied by women. This is the same level as in 2012 and 2011. There are an equal number of female and male employees on the work environment committee (WEC).

Noreco has a highly educated staff, where 39 percent of the organisation holds a bachelor degree, 54 percent holds a master degree and 7 percent holds a PhD.

Noreco pays equal salaries and gives equal compensation for positions at the same level, regardless of gender, ethnicity, religion or disabilities. Women are slightly under-represented in management 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. Sick leave in Noreco remains low and was 1.5 percent in 2013 versus 2 percent in 2012 and 2.5 percent in 2011. Given the company's challenging financial situation, special emphasis was put on keeping employees well informed about the developments at all times. Feedback has been positive.

The management's compensation is described in the notes to the annual accounts.

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 that this is essential to ensure the success of the company's vision and ambitions for value creation for the shareholders.

The Board and management strive 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, 29 board meetings were held in 2013.

The activities of the Board have been focused on promoting value creation in the company's portfolio, strengthening the company's financial position and further developing the company strategy.

In February 2013, the company received a request to convene 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 was held on March 22, 2013. The Company's nomination committee recommended in this context that the number of shareholder elected Board members be reduced from seven to five. Ståle Kyllingstad (Chairman), Hilde Drønen, Eimund Nygaard, Erik Henriksen (new) and Marika Svärdström (new) were elected as new Board members. Erik Henriksen and Marika Svärdström resigned as Board members in August 2013.

Noreco held its Annual General meeting in May 2013. In addition, an extraordinary general meeting was held in November 2013 where it was resolved to reduce the share capital, carry out a private placement by issuance of a temporary new class of shares, grant a proxy to the Board to carry out a repair issue, and grant the Board a proxy to issue one or several convertible loans.

In January 2014, the company again received a request to convene an extraordinary general meeting to elect the shareholder representatives to the Board. Such general meeting was held on 5 February 2014. The following directors were elected: Morten Garman (chair), Hilde Drønen, Marika Svärdström, Erik Henriksen and David Gair. Directors elected by and among company employees, Hilde Alexandersen and Bård Arve Lærum, were not up for election.

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 on the transfer of shares in Noreco. The company currently has approximately 5 860 shareholders, and approximately 67 percent of the shares are held by Norwegian residents.

A full conversion of the convertible bond issued in December 2013 will result in an issue of 1 223 million new shares. This new equity from the convertible bonds will then represent 17.8 percent of the share capital. If the interest is paid-in-kind instead of cash, a conversion of the entire convertible bond after five years will result in the issuance of 1 490 million shares. This new equity will then represent 20.9 percent of the issued share capital at that time. This information assumes that there are no other issuances of new shares in the period.

Norwegian Energy Company ASA
In 2013, the parent company was a pure holding company, and the operating expenses mainly consisted of shareholder costs and payroll expenses. In addition, a write-down was made of the shareholding in Altinex ASA of NOK 444 million. Among others, this write-down reflects the produc-tion and other impairments related to the underlying fields of Altinex ASA's subsidiaries. The effect related to the refinancing of the company's bond debt is recognised directly within equity, and amounts to NOK 501 million after tax. This differs from the accounting policy for the Group and follows prevailing guidance of the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway (N-GAAP). 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 2013 was a loss of NOK 844 million. The board proposes the following allocations:

	NOK million
Allocated from other equity	527
Covered by other paid-in capital	318
Total appropriation	**844**

Outlook
After a successful refinancing including restructuring of all outstanding bond debt, down payment of the reserve based lending facility and two successful share issues, Noreco has established a significantly better financial foundation. However, the company's liquidity position going forward will be heavily dependent on production from Huntington and the other fields developing as expected. Deviations in the oil price and the exchange rate between USD and NOK from the present levels will also impact the company's liquidity position.

With the Huntington field on stream, Noreco's production capacity has more than doubled, and the field's plateau production level at above 6 400 boepd net to Noreco has been confirmed. Experience has shown that field uptime can be impacted by events outside the company's control, for instance by bad weather and restrictions in the British Central Area Transmission System (CATS) gas grid on the UK continental shelf.

In Denmark, the operator is planning to repair the Siri platform in the third quarter 2014. A temporary solution is in place for the Nini and Cecilie fields; however, this is exposed to weather conditions. Production irregularity is, therefore, expected until the final repairs at the Siri platform are completed. Production at Nini restarted in early February. Production at Cecilie is expected to resume in the second quarter 2014 after completion of necessary repair and maintenance work at the processing facility on the Siri platform. The Enoch field was expected to be back on stream during the second quarter, but this now appears to be uncertain and delays are expected

In Norway, the Oselvar and Lulita fields restarted in October 2013. They have both produced well since start up.

Noreco's drilling programme for 2014 comprises three confirmed wells. Drilling at the Verdande licences has been somewhat delayed due to rig availability but is expected to spud in the beginning of the second quarter 2014. The appraisal well currently being planned at Gohta in the second quarter is very important to determining the potential of this discovery. The Xana well in Denmark is expected to start in October 2014.

Noreco continuously works on optimising the license portfolio to reflect the company's desired equity level and risk-reward balance, while running the company within an acceptable financial framework. The newly issued awards in the APA 2013 demonstrate the company's commitment to the development of a value-creating licence portfolio.

Approved by the board 25 March 2014
(Translation made for information purposes only.)

Morten Garman Chairman	**Hilde Drønen** Board member	**Marika Svärdström** Board member	**Erik Henriksen** Board member
David Gair Board member	**Hilde Alexandersen** Employee elected board representative	**Bård Arve Lærum** Employee elected board representative	**Svein Arild Killingland** CEO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

(All figures in NOK million)	Note	2013	2012
Revenue	5,6	**894**	**832**
Production expenses		(430)	(244)
Exploration and evaluation expenses	7,27	(666)	(1 188)
Payroll expenses	8,21,25	(127)	(134)
Other operating expenses	9	(95)	(114)
Other (losses)/ gains	10	(15)	32
Total operating expenses		**(1 333)**	**(1 649)**
Operating results before depreciation and amortisation		**(440)**	**(817)**
Depreciation	12,31	(319)	(269)
Write-downs	11,12	(1 211)	(421)
Net operating result		**(1 969)**	**(1 508)**
Financial income	13	570	76
Financial expenses	13	(556)	(562)
Net financial items		**15**	**(486)**
Result before tax		**(1 954)**	**(1 994)**
Income tax benefit	14	947	1 401
Net result for the year		**(1 008)**	**(593)**
Other comprehensive income (net of tax):			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement of defined benefit pension plans	21	0	3
Total		*0*	*3*
Items to be reclassified to profit or loss in subsequent periods			
Cash flow hedge	18	7	(11)
Discontinued cash flow hedge	18	4	-
Currency translation adjustment		264	(201)
Total		*274*	*(212)*
Total other comprehensive result for the year (net of tax)		**274**	**(209)**
Total comprehensive result for the year (net of tax)		**(733)**	**(802)**
Earnings per share (NOK 1)			
Basic	15	(1.49)	(2.26)
Dilluted	15	(1.49)	(2.26)

Note 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

as of 31 December

(All figures in NOK million)	Note	31.12.13	31.12.12	01.01.12
Non-current assets				
License and capitalised exploration expenditures	11,27	743	819	1 250
Goodwill	11	174	497	656
Deferred tax assets	14	293	105	610
Property, plant and equipment	12,27	3 087	3 991	4 297
Restricted cash	17,19	500	-	-
Total non-current assets		**4 797**	**5 411**	**6 813**
Current assets				
Tax refund	14	378	1 339	506
Derivatives	18,19	1	7	27
Trade receivables and other current assets	16,19	551	564	834
Restricted cash	17,19	74	20	17
Bank deposits, cash and cash equivalents	17,19	403	584	671
Total current assets		**1 408**	**2 515**	**2 055**
Total assets		**6 205**	**7 926**	**8 868**

Note 1 to 32 are an integral part of these consolidated financial statements.

(All figures in NOK million)	Note	31.12.13	31.12.12	01.01.12
Equity				
Share capital	20	466	1 097	756
Other equity	20,25	1 284	931	1 671
Total equity		**1 750**	**2 028**	**2 427**
Non-current liabilities				
Deferred tax	14	953	1 245	1 991
Pension liabilities	21	-	7	16
Asset retirement obligations	22	327	323	298
Bond loan	19,23,26	1 939	-	2 318
Other interest bearing debt	19,23,26	0	243	293
Total non-current liabilities		**3 220**	**1 818**	**4 916**
Current liabilities				
Bond loan	19,23,26	541	2 779	643
Other interest bearing debt	19,23,26	333	862	421
Derivatives	18,19	4	11	-
Tax payable	14	13	51	180
Trade payables and other current liabilities	19,24	343	376	281
Total current liabilities		**1 235**	**4 080**	**1 526**
Total liabilities		**4 455**	**5 898**	**6 441**
Total equity and liabilities		**6 205**	**7 926**	**8 868**

Stavanger 25 March 2014
(Translation made for information purposes only.)

Morten Garman Chairman	**Hilde Drønen** Board member	**Marika Svärdström** Board member	**Erik Henriksen** Board member
David Gair Board member	**Hilde Alexandersen** Employee Representative	**Bård Arve Lærum** Employee Representative	**Svein Arild Killingland** CEO

Note 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

(All figures in NOK million) 2012	Note	Share capital	Currency translation fund	Hedging reserve	Other equity	Total equity
Equity at 01.01.2012		756	138	0	1 534	2 428
Retrospective adoption of of IAS19R adjustment	21				(1)	(1)
Equity at 01.01.2012		**756**	**138**	**0**	**1 533**	**2 427**
Net result for 2012		-	-	-	(593)	(593)
Comprehensive income/(loss) for the period (net of cash)						
Currency translation adjustments		-	(201)	-	-	(201)
Remeasurement of defined benefit pension plans	21				3	3
Cash flow hedge	18	-	-	(11)	-	(11)
Total comprehensive income(loss) for 2012		**-**	**(201)**	**(11)**	**(590)**	**(802)**
Total transactions with owners for the period						
Proceeds from share issued	20	341	-	-	66	407
Issue cost		-	-	-	(18)	(18)
Share-based incentive program	25	-	-	-	14	14
Total transactions with owner for the period		**341**	**-**	**-**	**62**	**403**
Equity at 31.12.2012		**1 097**	**(64)**	**(11)**	**1 005**	**2 028**

Note 1 to 32 are an integral part of these consolidated financial statements.

(All figures in NOK million) 2013	Note	Share capital	Currency translation fund	Hedging reserve	Other equity	Total equity
Equity at 01.01.2013		**1 097**	**(64)**	**(11)**	**1 005**	**2 028**
Net result for 2013					(1 008)	(1 008)
Comprehensive income/(loss) for the period (net of tax)						
Currency translation adjustments		-	264	-	-	264
Cash flow hedge	18	-	-	7	-	7
Discontinued cash flow hedge	18	-	-	4	-	4
Total comprehensive income(loss) for 2013		**-**	**264**	**11**	**(1 008)**	**(733)**
Transactions with owners for the period						
Proceeds from share issued	20	437	-	-	2	439
Issue cost		-	-	-	(13)	(13)
Capital reduction	20	(1 068)	-	-	1 068	-
Equity component of convertible bond	23,2	-	-	-	16	16
Share-based incentive program	25	-	-	-	13	13
Total transactions with owners for the period		**(631)**	**-**	**-**	**1 086**	**455**
Equity at 31.12.2013		**466**	**200**	**-**	**1 084**	**1 750**

Note 1 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

(All figures in NOK million)	Note	2013	2012
Net result for the period		(1 008)	(593)
Income tax benefit	14	(947)	(1 401)
Adjustments to reconcile net result before tax to net cash flows from operating activities:			
Tax paid		(64)	(166)
Tax refunded	14	1 351	516
Depreciation	12	319	269
Write-downs and reversal of write-downs	11,12	1 211	421
Expensed exploration expenditures previously capitalised	11	556	995
Share-based payments expenses	25	13	14
(Gain) / loss on sale of licenses	10	0	(54)
Impact from termination of defined benefit pension plan	21	(7)	0
Loss related to discontinued cash flow hedge	18	4	0
Unrealised loss / (gain) related to financial instruments		5	20
Gain on extinguishment of debt	13,23	(569)	0
Paid/received interests and borrowing cost - net		431	384
Interests received		28	24
Effect of changes in exchange rates (net foreign exchange loss)	13	13	7
Loss on repurchase of bonds	13	3	0
Amortisation of borrowing costs	13	82	48
Accreation expense related to asset retirement obligations	22	25	27
Changes in working capital			
Changes in trade receivables		33	39
Changes in trade payables		20	3
Changes in other current balance sheet items		(24)	352
Net cash flow from operations		**1 476**	**905**

Note 1 to 32 are an integral part of these consolidated financial statements.

(All figures in NOK million)	Note	2013	2012
Cash flows from investing activities			
Purchase of tangible assets	12	(49)	(486)
Purchase of intangible assets	11	(412)	(649)
Establishment of security account for abandonment obligation in Denmark	17	(570)	0
Net cash flow used in investment activities		**(1 031)**	**(1 136)**
Cash flow from financing activities			
Issue of share capital		439	407
Paid issue cost		(4)	(18)
Proceeds from issuance of bonds	23	300	500
Proceeds from utilisation of exploration facility	23	345	597
Proceeds from utilisation of reserve based facility/owner		0	456
Repayment of bonds		0	(649)
Repayment of exploration facility	23	(573)	(454)
Repayment of reserve based facility	23	(581)	(228)
Repurchase own bonds		(50)	0
Paid borrowing costs	13	(61)	(62)
Interest paid		(440)	(407)
Net cash flow from (used) in financing activities		**(626)**	**143**
Net change in cash and cash equivalents		**(181)**	**(87)**
Cash and cash equivalents at the beginning of the year	17	584	671
Cash and cash equivalents at end of the year	17	**403**	**584**

Note 1 to 32 are an integral part of these consolidated financial statements.

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NOTES

1 General information

Norwegian Energy Company ASA ("Noreco", "the Company" or "the Group") 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 2013 were approved by the Board of Directors on 25 March 2014.

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. The Group does also provide information which is obligated in accordance with the Norwegian Accounting Act and associated N-GAAP standards.

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 assumption 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 at 31 December 2013 was considered satisfactory in regards of the planned activity level in 2014. However, the Company is highly dependent on production from Huntington and the other fields during 2014 to be able to meet the future obligations. See note 3.1 for further details relating to liquidity risk.

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, 2013, besides what is disclosed in the Director's report and the financial statements.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

2.1.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the group
The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

IAS 1 Financial statement presentation
Amendment to IAS 1 is regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments).

IAS 19 Employee benefits
IAS 19 was revised in June 2011. The changes on the Group's accounting policies has been as follows: all estimate deviations are reported in 'other comprehensive income' as they occur (no corridor), to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 21 for the impact on the financial statements.

IFRS 13 Fair value measurement
IFRS 13 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. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy is provided in note 19.

IAS 36 Impairment of assets
Amendments to IAS 36 relate to the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014; however, the Group has decided to early adopt the amendment as of 1 January 2013.

b) New standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements.
IFRS 9 Financial instrument; Classification and measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities.
IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured 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 the 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 effective date of IFRS 9 was 1 January 2015. The effective date has been postponed and a new date is yet to be specified. The Company will adopt the standard in the first annual period beginning on or after the mandatory effective date (once specified). The Group is yet to assess IFRS 9's full impact and the Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statement
IFRS 10 replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" that addresses the accounting for consolidated financial statements.

IFRS 10 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 change is effective from 1 January 2014. Currently all subsidiaries are included in the Group accounts and are wholly owned and the standard will not lead to significant changes in entities deemed to be controlled by Noreco.

IFRS 11 Joint Arrangements
IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The Group has not identified significant entities or activities within the scope of IFRS 11 that will be accounted for differently under the new standard. Those of The Group's license activities that are within the scope of the standard will be accounted for in a manner similar to proportionate consolidation. The change is effective from 1 January 2014.

IFRS 12 Disclosures of interests in other entities
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The new standard will require a number of new disclosures, but has no impact on the Group's financial position or performance. The change is effective from 1 January 2014.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 percent 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 2013, all consolidated subsidiaries are 100 percent 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 deconsolidated from the date that control ceases.

Notes

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.

b) Disposal of subsidiaries
When the Group ceases to have control any retained interest in the entity is re-measured 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. The Group has ownership in licenses that are not separate legal companies. All of these are related to licenses on the Norwegian, Danish and UK continental shelf. The Company recognises investments in jointly controlled assets (oil and gas licenses) by applying the proportionate consolidation method by accounting for its share in the assets income, cost, assets, debt and cash flow in the respective line items in the Company's financial statements.

2.3 Segment reporting

The Group's 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. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO). In 2012 and 2013, The Group 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 and the parent company's functional 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 the average quarterly 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 currency translation adjustments 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. Currency translation adjustments 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 asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value will be added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the 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.

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.

Gain or loss from sale of property, plant and equipment, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains. (See also Note 2.6 a) regarding goodwill.)

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 (UoP) 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 constitutes 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 license 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 equipment 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 measured at the lower of carrying amount and the fair value less costs of disposal.

2.6 Intangible assets

a) Goodwill
Goodwill arises on the acquisition of business and represents the excess of the consideration transferred over The Group'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 comparing this with the agreed consideration adjusted for any pro/contra settlement. In cases where the sold asset forms a part of a cash generating unit to which goodwill is allocated, 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) License and capitalised exploration expenditures
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 property, plant and equipment 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 exploration wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proven 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 exploration 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 exploration wells not meeting these conditions are charged to expense on the line item for exploration expenses.

When acquiring shares in exploration licenses ("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 licenses (farm-out agreements), the Group will normally surrender parts of a license 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 licenses or parts of licenses 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
The Group 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 license 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. The Group'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 of disposal 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 available-for-sale 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', "restricted cash" 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

a) 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 acitivites

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 fair values of various derivative instruments used for hedging purposes are shown in note 19. Movements on the hedging reserve in other comprehensive income are described in note 18. 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 matures 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 other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance, 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 no longer meets the criteria for hedge accounting, any gain or loss accumulated in other comprehensive income at that time remains within other comprehensive income 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 other comprehensive income is immediately transferred to the income statement within Other gains/(losses).

The Group has no derivatives designated for cash flow hedging as of 31 December 2013.

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, 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. 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. Over/under lift positions at the balance sheet date, are expected to be settled within 12 months from the balance sheet date.

For the accounts, the items are treated as financial instruments at fair value through profit or loss. The item is considered to be a financial instrument as the over/under lift position will be settled in cash at the end of the fields' life time or when the license is sold or returned.

2.14 Share capital and share premium

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 payables 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 contractual 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

Gains or losses arising from repurchases of the Group's bond debt are recognized as financial income or financial expense. The gain or loss is calculated as the difference between the fair value paid at the time of the repurchase and the amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or when the contractual obligation expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income as a gain or loss under financial items. Transaction costs incurred during this process are treated as a cost of the settlement of the old debt and included in the gain or loss calculation.

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.

2.17 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 as 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.Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

2.19 Current and deferred income tax

The tax expense for the period comprises current tax, tax impact from refund of exploration expenses and deferred tax. Income 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 tax receivable 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 or substantively 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.

Any capitalised deferred tax asset is reduced if it is no longer probable that the tax asset will be realised. Deferred tax and deferred tax asset is calculated with basis in expected future nominal tax rate for the companies where the temporary difference has occurred.

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 percent income tax, resulting in a 78 percent marginal tax rate on income subject to petroleum tax. The standard income tax rate is changed to 27 percent from 1 January 2014. The special petroleum tax rate is changed to 51 percent at the same time, leaving the marginal tax rate on income subject to petroleum tax unchanged. As of 31 December 2013, the deferred tax and deferred tax an asset relating to onshore activity in Norway is calculated with a tax rate of 27 percent as a consequence of the change in tax rates.

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 5.5 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 are calculated with a fixed interest rate per year. For 2013, this interest rate is 1.5 percent. (2012: 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, 27 percent from 1 January 2014), ref. the Norwegian Petroleum Taxation Act §3d. If interest expense is to related parties and net interest expense exceeds NOK 5 million, they can not be deducted for the amount that exceeds 30 percent of ordinary income, adjusted for interest and tax depreciation. This rule applies from 2014, but the companies covered by the Norwegian Petroleum Taxation Act § 3 d are as of today exempt. The interest limitation rule will have limited impact on the Group.

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 line “Tax receivable”. 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 Act §3c. The tax refund will be determined by the authorities, and will be received 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. Investments can be deducted 100 percent in the year the investment is made. Losses can be utilised indefinitely for entities which have commenced “trading”. For entities at a pre-trading stage the losses can be carried forward in six years, and the losses give an annual markup of 10 percent (6 percent 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 78 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.

On the 20 December 2013, “Folketinget” (the Danish government) concluded that with effect from 1 January 2014 hydrocarbon taxes in Denmark will be harmonised. The main changes are a reduction in the special hydrocarbon tax rate from 70 percent to 52 percent with a marginal tax rate of 64 percent, the 5 percent duty on oil production is cancelled, and the hydrocarbon allowances are reduced from 25 percent annually for 10 years to 5 percent annually for 6 years. The Groups assessment is that the suggested changes will not have a negative impact on the Group accounts, and the current tax rate for the Danish companies will remain 25 percent.

2.20 Pensions

The Group has had both defined benefit and defined contribution plans valid up to 12 G during the reporting period. The pension arrangement is financed through payments to an insurance company.

Employees in the Norwegian companies within the Group have had a collective (secured) pension arrangement up until 31 December 2013. The arrangement was defined as a benefit plan. From 31 December 2013, the pension agreements for all Norwegian employees have been changed to defined contribution plans; and as of the balance sheet date, the Group has no liability relating to defined benefit plan arrangements. In Denmark, the Group has a defined 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 legal or constructive obligations to pay further contributions. 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 benefit obligation at the balance sheet date less fair value of the plan assets (amount paid to an insurance company), adjusted for unrecognised estimation deviations and unrecognised expenses related to pension vesting for previous periods.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on bonds with priority (OMF) on the balance sheet date which have maturity dates that coincide with the Group’s pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

c) Bonus plans
The Group recognises a liability and an expense for bonuses based on an estimate that takes into consideration the performance of the Company compared to board approved performance objectives for the period. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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).

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.

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 (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk-free rate adjusted for credit risk. 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 possibility of an outflow of resources embodying economic benefits is remote.

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 licenses the Group is part of, independently of whether the produced oil and gas has been sold (the entitlement method). Over/under lifting of hydrocarbons as a consequence of the entitlement method is valued to estimated sale value 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 for over/under lifting of hydrocarbons in the balance sheet.

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 costs, environmental fees, transport costs 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. See note 2.12 for the definition of "Cash and cash equivalents".

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
The Group expenses recognised drilling costs related to a well 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 related to a previously drilled prospect, where the commerciality assessment was not completed at the completion of the drilling operation.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks 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, are utilised. The Group also enters into derivative transactions as options, swap agreements and forward contracts. The purpose is to hedge the certain items in the balance sheet or cash flows.

The main financial risks arising from the Group's activities are market, liquidity risk and credit risk.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market risk comprises three types of risk: foreign currency risk, price risk and interest rate risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables, accrued liabilities and derivative financial instruments.

(a) Foreign currency 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 ensures 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. The Group's balance sheet includes also significant assets and liabilities which is recorded in other currencies then the Group's presentation currency. As such the Group's equity is sensitive to changes in foreign exchange rates, especially the rate between NOK and USD. See Note 16 Trade receivables and other receivables, Note 17 Restricted cash, bank deposits, cash and cash equivalents, Note 18 Derivative financial instruments, Note 23 Borrowings and Note 24 Trade payable and other current liabilities.

A decrease of the average exchange rate and the closing rate of USD, GBP and DKK with 5 percent would have the following impact on income statement and equity:

NOK million	USD	GBP	DKK
Revenue	(45)	0	0
Total operating expenses	34	9	14
Net income for the year	37	2	14
Equity	(118)	(12)	14

With a similar increase of the exchange rates it would impact the figures equity with the opposite sign.

(b) Price risk

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. The Group have for a little share of the future production entered 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 is USD 70, the options are not exercised and the Group sells at market price. Hedge accounting has not been applied when accounting for the oil price derivatives; see Note 18 Derivative financial instruments.

In 2013 The Group realised an average oil price of USD 101.8 per barrel of oil equivalents. If the realised average price had been 5 percent lower (USD 96.7), the revenue would have been reduced with NOK 45 million.

(c) 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 3 447 million (2012: NOK 3 712 million) in interest-bearing debt (nominal value), of which NOK 945 million (2012: NOK 1 862 million) is short-term debt. Of the Group's debt, NOK 3 102 million (2012: NOK 1 825 million) are loans with a fixed interest rate. The remaining, NOK 345 million (2012: NOK 2 149 million), are loans with a floating interest rate. The exploration loan is the only loan with a floating interest at 31 December 2013. For further information about the Group's interest-bearing debt, see Note 23.

The Group had also secured a fixed interest rate for the bond loans with a floating interest rate in 2012, see specification regarding these interest swap agreements in Note 18 Derivative financial instruments.
All bank deposits (NOK 978 million) are at floating interest rates. See note 17 Restricted cash, bank deposits, cash and cash equivalents for further information about bank deposits.

At the end of the reporting period and as a result of the refinancing process, all long term loans have a fixed interest rate. As a consequence, the Group considers the risk exposure to changes in market interest to be at an acceptable level.

During 2013 the interest expenses related to the exploration loan amounted to NOK 32 million including amortisation of borrowing cost. The interest terms for the loan is 3 month NIBOR + a 2.5 percent margin. The average NIBOR in 2013 were 1.70 percent, and an increase of 10 percent to 1.87 percent would increase the interest expenses related to exploration loan with NOK 1 million.

Liquidity risk

Management of liquidity risk implies maintaining a sufficient buffer of cash and cash equivalents and the availability of funding through overdraft and revolving credit facilities. The Group has a business model that includes active management of its asset portfolio. This entails among other factors that The Group should be able to attend the entire process from when the license is in the exploration phase to the delivery of a plan for development and operations with subsequent investments and production. The Group will simultaneously assess each license in order to optimise the value for the Group either through divestment or continued participation in the license. During 2013, the management has continued the work to align the Group's debt maturity profile to the expected cash flows from operations. The refinancing was completed during the fourth quarter 2013, and was a result of these efforts and the developments in 2013 that did not turn out as expected at the beginning of the year.

The financial solidity and the Company's cash position at 31 December 2013 was considered satisfactory in regards of the planned activity level in 2014. However, the Company is highly dependent on production from Huntington and the other fields during 2014 to be able to meet the future obligations.

The Company's cash forecast indicates that liquidity will be sufficient in the next 12 months, but there is a risk that headroom in regard of the covenant can be tight after the bond maturity in December 2014 given an unchanged asset portfolio. The covenant implies that the group shall at all times have a minimum of NOK 100 million in free cash. The forecasts are based on a number of assumptions concerning future operating conditions, market conditions and the timing of certain events. If the trend through 2014 differ negatively from forecasted development, it may be necessary for the Company to implement certain extraordinary measures to ensure fulfilment of loan terms and ensure sufficient liquidity to meet current obligations and debt maturities.

The Group has two credit facilities which secure some degree of flexibility in the funding structure. This, along with available liquidity, cash flow from operations and active portfolio management provides the basis for that the Group has secured financing of the operations and further investments. See note 17 Restricted cash, bank deposits, cash and cash equivalents Note 23 Borrowings and Note 29 Operating leases.

Credit risk

The Groups most significant credit risk arises principally from recognised receivables and insurance arrangements related to the Group's operation. 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. The counterparty in derivatives and insurance related issues are large international banks and insurance companies whose credit risk is considered low. The Group is entitled to a tax refund from the Norwegian tax authorities in accordance with the Norwegian Petroleum Taxation Act relating to exploration expenditures on Norwegian exploration licenses. The credit risk relating to the refund is considered low.

The maximum credit risk can be summarised as follows:

Maximum credit risk

(NOK million)	Note	2013	2012
Non-current assets			
Restricted cash	17,19	500	-
Total		500	-
Current assets			
Tax refund	14	378	1 339
Derivatives	18,19	1	7
Trade receivables and other current receivables	16	551	564
Restricted cash	17,19	74	20
Bank deposits, cash and cash equivalents	17,19	403	584
Total		1 407	2 514
Maximum credit risk		**1 907**	**2 514**

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group manages its capital structure in relation to the risk. The management of the capital structure involves active monitoring and making adjustments to the financing instruments in parallel with changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may refinance its debt, buy or issue new shares or debt instruments, or divest assets. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2013.

The Group monitors the debt with the basis of cash flows, equity ratio and the gearing ratio.

See further information regarding borrowings and covenants in Note 23.

3.3 Fair value estimation

The Group has certain financial instruments carried at fair value. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Level 3: Inputs for other assets or liabilities that are not based on observable market data
Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level.

See Note 19 for fair value hierarchy and further information.

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
Goodwill impairment tests are performed annually or more frequently if events or changes in circumstances indicate a potential 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 11). An impairment charge of NOK 350 million arose during 2013 (2012: NOK 118 million), distributed with NOK 218 million for the cash generating unit for UK, NOK 116 million for Denmark and NOK 17 million for Norway. This resulted in the carrying amount for these countries being written down to its recoverable amount.

If the estimated oil price at 31 December 2013 was reduced by 5 percent this would cause a further impairment of goodwill of NOK 76 million. If the applied discount rate after tax for these cash generating units was increased by 1 percent (from 10 to 11 percent), this would cause a further impairment of goodwill of NOK 17 million.

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

c) Estimated recoverable amount on property, plant and equipment
The Group performs impairment testing on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, ref. Note 2.7. Recoverable amount from cash generating units are determined through calculations of value-in-use. These calculations require the use of estimates (Note 12). There was a net loss on impairment during 2013 of NOK 860 million (2012: NOK 303 million). This caused the carrying value of certain assets to be written down to their recoverable amount. See information regarding sensitivity related to the impairment test in note 12.

d) Estimated reserves and resources – accounting impact
Proven and probable reserves are used to calculate production volumes related to amortisation. Reserve estimates are also used for testing of license-related assets for write down. Changes to reserve estimates can, for instance, be caused by changes to price and cost estimates. 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 testing license-related assets for write down. This can have a significant negative or positive impact on the operating result as a consequence of increased or reduced amortisation, or reversal of previously recognised write down.

e) Estimated value of financial assets
For every reporting date, an assessment is made on whether objective evidence is present that financial assets or groups of financial assets should be written down . The Group, in conjunction with its partners, 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 The Group's 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 14.

g) Asset retirement obligation
Production of oil and gas is subject to statutory requirements relating to decommissioning and removal obligation 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 (estimated based on current costs inflated) 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 a risk-free rate adjusted for credit risk. 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 Group's intention and plans are stated as basis, so far as there is no information indicating that the majority of partners in the licenses will not be able to support The Group's intentions and plans.

b) Impairment testing of financial assets (short-term receivable)
The Group follows the guidance of IAS 39 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement. The Group has a receivable due from the company's insurance companies, and the judgement used as basis for the Company's impairment test include a number of technical and legally complex conditions. See Note 16 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 The Group's 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 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 homogenous risk and rate of return before tax and are therefore considered as one operating segment, see note 2 Significant Accounting Policies.

Noreco has activities in Norway, Denmark and UK. See note 2.3 for additional information on segment reporting.

Assets and liabilities are reflecting balance sheet items for the Group entities in their respective countries. Excess value is allocated to the units expected to gain advantages by the acquisition. Investments in subsidiaries, loans, receivables and payables between the companies are included in segment assets and liabilities. These are eliminated in the consolidated balance sheet.

GEOGRAPHICAL INFORMATION 2013 (NOK million)	**Norway**	**Denmark**	**UK**	**Inter-company**	**Group**
Condensed Income statement					
Total revenue	106	384	404	-	894
Total operating expenses	(490)	(536)	(308)	-	(1 333)
Depreciations	(30)	(102)	(187)	-	(319)
Write-downs and reversal of write-downs	(393)	(600)	(218)	-	(1 211)
Net operating result	(807)	(854)	(308)	-	(1 969)
Net financial items	80	(8)	(57)	-	15
Result before tax	(728)	(862)	(365)	-	(1 954)
Income tax benefit	592	186	169	-	947
Net result for the period	(135)	(676)	(196)	-	(1 008)
Condensed statement of financial position					
License and capitalised exploration expenses	148	18	577	-	743
Goodwill	(0)	43	131	-	174
Property, plant and equipment	382	299	2 405	-	3 087
Other assets	1 696	1 324	529	(1 347)	2 201
Total assets	2 226	1 685	3 642	(1 347)	6 205
Total liabilities	2 930	914	1 958	(1 347)	4 455
Capital expenditure					
Capital expenditures production facilities	1	14	(0)	-	14
Capital expenditures asset under construction	-	-	36	-	36
Capital expenditures explorations and evaluations	293	16	103	-	412
Total capital expenditure	293	29	139	-	461

GEOGRAPHICAL INFORMATION 2012 (NOK million)	**Norway**	**Denmark**	**UK**	**Inter-company**	**Group**
Condensed Income statement					
Total revenue	116	715	-	-	832
Total operating expenses	(1 030)	(406)	(213)	-	(1 649)
Depreciations	(40)	(229)	-	-	(269)
Write-downs and reversal of write-downs	(338)	-	(83)	-	(421)
Net operating result	(1 292)	80	(296)	-	(1 508)
Net financial items	(383)	(45)	(62)	4	(486)
Result before tax	(1 675)	35	(358)	4	(1 994)
Income tax benefit	1 083	(10)	328	-	1 401
Net result for the period	(592)	25	(30)	4	(593)
Condensed statement of financial position					
License and capitalised exploration expenses	27	240	552	-	819
Goodwill	17	154	326	-	497
Property, plant and equipment	821	912	2 259	-	3 991
Other assets	2 278	1 628	430	(1 717)	2 619
Total assets	3 143	2 933	3 566	(1 717)	7 926
Total liabilities	3 743	1 594	2 275	(1 715)	5 898
Capital expenditure					
Capital expenditures production facilities	111	20	-	-	131
Capital expenditures asset under construction	101	-	254	-	355
Capital expenditures explorations and evaluations	524	66	59	-	649
Total capital expenditure	736	86	314	-	1 136

6 Revenue

(NOK million)	**2013**	**2012**
Sale of oil	828	799
Sale of gas and NGL	65	33
Total revenue	**894**	**832**

Revenue by customer	**2013**	**2012**
Shell	51.2 %	86.6 %
BP	15.4 %	11.4 %
Exxon	13.3 %	0.0 %
Other - each less than 10 %	20.1 %	2.0 %
Total	**100.0 %**	**100.0 %**

7 Exploration and evaluation expenses

(NOK million)	**2013**	**2012**
Acquisition of seismic data, analysis and general G&G costs	(95)	(113)
Exploration wells capitalised in previous years	(311)	(416)
Dry exploration wells this period	(244)	(579)
Other exploration and evaluation costs	(15)	(80)
Total exploration and evaluation costs	**(666)**	**(1 188)**

8 Personell expenses and remuneration

Personell expenses consist of the following:

(NOK million)	**2013**	**2012**
Salaries	(107)	(120)
Social security tax	(15)	(16)
Pensions costs (note 21)	(4)	(14)
Costs relating to share-based payments (note 25)	(13)	(11)
Other personell expenses	(3)	(3)
Personnel expenses charged to operated licenses	15	30
Total personell expenses	**(127)**	**(134)**

Average number of man-years	**2013**	**2012**
Norway	54	61
Denmark	11	12
Total	**65**	**75**

Compensation to key management for 2013

(NOK 1 000)	Director's fees	Remuneration	Bonus	Pension	(1) Other remuneration	(2) Total compensation	(3) Number of shares	(4) Number of options	(5) Shares purchased in 2014
Senior executives									
Svein Arild Killingland (6) CEO	-	1 972	-	121	416	2 509		-	1 500 000
Einar Gjelsvik (7) CEO	-	2 173	1 815	136	527	4 651	-	-	
Ørjan Gjerde CFO	-	2 211	111	147	259	2 728		514 867	1 000 000
Lars Fosvold VP, Exploration	-	1 991	171	206	930	3 298	291 169	766 536	2 000 000
John Bogen (8) COO, VP Dev. & Production	-	1 896	163	209	902	3 170	135 941	656 571	
Kjetil Bakken (9) VP, Strategy & Investor Relations	-	1 792	340	147	223	2 502	-	-	
Øyvind Sørbø (10) VP, Commercial	-	1 704	164	178	494	2 540	193 483	337 007	1 160 570
Board of directors									
Ståle Kyllingstad (11) Chairman of the Board	302	-	-	-	-	302	1 029 470 893	-	
Ole Melberg Deputy chairman	51	-	-	-	-	51	260 048	-	
Eimund Nygaard (12) Board member	201	-	-	-	-	201	27 701 514	-	
Shona Grant Board member	45	-	-	-	-	45	20 000	-	
Mona Iren Kolnes Board member	45	-	-	-	-	45	30 000	-	
Arnstein Wigestrand Board member	90	-	-	-	-	90	87 027	-	
Hilde Drønen Board member	402	-	-	-	-	402	40 000	-	
Erik Henriksen Board member	168	-	-	-	-	168	1 515 354 828	-	21 000 000
Ingrid Marika Svärdström Board member	168	-	-	-	-	168	-	-	
Bård Arve Lærum Board member employee elected	151	1 482	117	170	327	2 247	119 167	305 215	800 000
Hilde Alexandersen Board member employee elected	151	1 402	120	182	318	2 173	116 301	288 639	850 000
Total compensation 2013	**1 774**	**16 623**	**3 001**	**1 495**	**4 396**	**27 289**	**2 574 115 371**	**2 868 835**	**28 310 570**
Total compensation 2012	2 235	17 094	3 450	1 636	1 417	25 832			

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

(2) All figures stated regarding salary and other compensation based on full year 2013. Not just part of the year that person held a position with reporting requirement

(3) 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 2013

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

(5) On 21 January 2014 the repair share issue related to the refinancing in the fourth quarter 2013 was paid out to the Company (ref. note 32). On the repair key management received shares. In addtion to the shares listed in the table the employee elected deputies were allocated the following shares:
Kenneth Brix received 40 302 shares and holds 47 021 shares after the allocation
Liselotte Vibeke Kiørboe received 268 842 shares and holds 313 662 shares after the allocation
Anne Hellvik Kvadsheim received 492 713 shares and holds 492 713 shares after the allocation
Erik Borg received 158 853 shares and holds 197 972 shares after the allocation

(6) Svein Arild Killingland was appointed CEO from 13 May 2013 replacing Einar Gjelsvik

(7) Total compensation for Einar Gjelsvik includes NOK 3.2 million in redundancy payments

(8) John Bogen left the Company on 31 January 2014

(9) Kjetil Bakken left the Company on 31 January 2014

(10) Øyvind Sørbø was appointed VP Commercial from 15 October 2013

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

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

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 The other shareholder 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.

Employee elected board representatives receive an annual remuneration of NOK 150 000. Deputy board members receive 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 25 April 2014.

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

The current remuneration package for the CEO and other executive officers includes fixed elements and variable elements. The fixed elements consist of a base salary and other benefits. Other benefits include free mobile phone and similar benefits. The fixed elements also include life, accident and sickness insurance in accordance with normal practice in the oil industry and a pension plan for all the employees, including the executive officers and the CEO.

The variable elements consist of an annual bonus scheme, a deferred bonus and participation in a share option program.

The level of the cash bonus is determined by the Board based on the Company's performance. The cash bonus will as a principle be limited to a maximum payment of 40 % of the base salary, but can be deviated from under extraordinary circumstances. The CEO can receive a cash bonus of maximum 100% of the base salary.

The employees, including the executive officers and the CEO, will have the opportunity to purchase Noreco shares equal to a maximum of 50 % of the bonus (pre tax) 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.

The CEO has an employment agreement under which he is entitled to receive a severance payment equal to 12 months' base salary in addition to salary in the termination period if the employment is terminated.

Other members of the group management have an arrangement of 12 months' severance payment after termination of employment if the Company is de-listed, enters into a merger or an acquisition and the person concerned is not offered an equivalent position in the new company.

The Annual General Meeting of shareholders held on 8 May 2013 resolved that the Board of Directors was authorised to increase share capital by up to NOK 21.7 million by one or several issues of up to a total of 7 million shares each with a nominal value of NOK 3.10. This authorisation could only be used for issuing new shares in relation to employee incentive schemes existing at any time for employees in the Group. The mandate expires on 1 June 2014. The mandate has been utilised once, when 2 391 002 shares were issued in February 2014 as part of the bonus scheme. The remaining mandate is 4 608 998 shares.

In 2014, the Board has at the date of this annual report decided to maintain the current share options program, which has a maximum allocation limit of 40% of base salary for all employees, 80% for management team members and 100% for the CEO. The board has for 2014 granted all employees the maximum number of share options in accordance with the program as previously approved, contingent on approval by the General Meeting in 2014. The strike price for these options will be determined by applying the volume weighed average trading price for the week prior to the General meeting 2014. Full allocation according to this program will result in issue of approx. 156 million options (based on an estimated strike price of 0.19). This represents a dilution of 2.75% for existing shareholders, provided no issuance of shares in the mean-time. The Board proposes that the options program continues on the same principles as applied and described above. The options arrangement provide for cash settlement in the event of inability to settle with issuance of new shares.

Other variable elements of remuneration may be used or other special supplementary payment may be awarded than those mentioned above if this is considered appropriate in order to attract and/or retain a manager.

There have been no deviations from the guidelines described above in 2013.

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.

Notes

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	Shares purchased in 2013
Senior executives									
Einar Gjelsvik CEO	-	2 715	575	159	455	3 904	204 459	1 371 041	53 072
Ørjan Gjerde (3) CFO	-	1 366	261	113	187	1 928	109 181	528 351	13 484
Erik Borg (11) Deputy CFO	-	1 354	263	150	248	2 016	23 445	330 957	15 674
Ellen S. Bratland (4) COO, VP Dev. & Production	-	1 982	416	203	40	2 640	88 579	353 579	118 832
Lars Fosvold VP, Exploration	-	1 955	418	224	36	2 633	129 794	792 255	161 375
John Bogen (4) VP, Commercial	-	1 845	398	192	41	2 475	115 219	673 904	120 722
Kjetil Bakken (5) VP, Strategy & Investor Relations	-	1 780	346	135	222	2 483	101 624	441 943	19 245
Board of directors									
Ståle Kyllingstad (9) Chairman of the Board	300	-	-	-	-	300	34 484 809	-	4 566 424
Ole Melberg Deputy chairman	225	-	-	-	-	225	260 048	-	
Eimund Nygaard (10) Board member	200	-	-	-	-	200	27 701 514	-	
Shona Grant Board member	200	-	-	-	-	200	20 000	-	
Mona Iren Kolnes Board member	200	-	-	-	-	200	30 000	-	
Arnstein Wigestrand Board member	400	-	-	-	-	400	87 027	-	
Hilde Drønen Board member	400	-	-	-	-	400	40 000	-	
Lotte Kiørboe (6) Board member employee elected	135	1 241	186	138	123	1 823	29 679	282 977	15 141
Bård Arve Lærum Board member employee elected	150	1 465	297	155	31	2 098	69 769	326 758	49 398
Hilde Alexandersen (7) Board member employee elected	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**

(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 1st of 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 of January 2013 replacing Ellen S. Brattland

(5) From 16 of January 2013 the Investor Relations function was no longer part of the executive management team.

(6) Lotte Kiørboe was an employee elected board representative until October 2012

(7) Hilde Alexandersen replaced Lotte Kiørboe as employee elected board representative from October 2012

(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 based on full year 2012. Not only part of the year that person held a position with reporting requirement

9 Other operating expenses

Specification of other operating expenses

(NOK million)	2013	2012
Lease expenses	(11)	(13)
IT expenses	(27)	(27)
Travel expenses	(5)	(6)
General and administrative costs	(5)	(6)
Consultant fees	(49)	(73)
Other operating expenses	(2)	(3)
Other operating expenses charged to own operated licenses	5	13
Total other operating expenses	**(95)**	**(114)**

Auditor's fees (ex. VAT)

(NOK million)	2013	2012
Auditor's fees	(2)	(2)
Other assurance service	(0)	(1)
Other non-audit assistance	(2)	(2)
Total audit fees	**(5)**	**(5)**

10 Other (losses) / gains

(NOK million)	2013	2012
Change in value, put options	(11)	(23)
Loss on discontinued cash flow hedge (ref note 18,19.2)	(4)	-
Gain /(loss) on sale of assets	(0)	54
Total other (losses) / gains	**(15)**	**32**

(Loss) / gain per divestment	Accounting date	2013	2012
Rau	22.05.12	-	23
Romeo (farm-out)	31.12.12	-	32
Total		**-**	**54**

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

11 Intangible fixed assets

Intangible fixed assets on 31 December 2013

(NOK milion)	License and capitalised exploration expenses	Goodwill	Total
Acquisition costs 31 December 2012	944	947	1 891
Presentation adjustment	(126)	-	(126)
Aquisition costs 1 December 2013	819	947	1 766
Additions	412	-	412
Expensed exploration expenditures previously capitalised	(556)	-	(556)
Currency translation adjustment	68	78	146
Acquisition costs 31 December 2013	**743**	**1 025**	**1 768**
Accumulated depreciation and write-downs			
Acquisition costs 31 December 2012	126	451	576
Presentation adjustment	(126)	-	(126)
Accumulated depreciation and write-downs 1 December 2013	-	451	451
Depreciations	-	-	-
Write-downs	-	350	350
Currency translation adjustment	-	51	51
Accumulated depreciation and write-downs 31 December 2013	**-**	**852**	**852**
Book value 31 December 2013	**743**	**174**	**917**

Intangible fixed assets on 31 December 2012

(NOK milion)	License and capitalised exploration expenses	Goodwill	Total
Acquisition costs 1 December 2012	1 376	1 012	2 387
Additions	649	-	649
Expensed exploration expenditures previously capitalised	(995)	-	(995)
Disposals	(11)	-	(11)
Currency translation adjustment	(74)	(64)	(138)
Acquisition costs 31 December 2012	**944**	**947**	**1 892**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 1 January 1012	126	355	481
Write-downs	-	118	118
Currency translation adjustment	-	(23)	(23)
Accumulated depreciation and write-downs 31 December 2012	**126**	**451**	**576**
Book value 31 December 2012	**819**	**497**	**1 316**

Goodwill is allocated to the Group's cash-generating units identified in connection with the acquisitions the goodwill relates to. Goodwill is allocated to three cash generating units: Norway, Denmark and United Kingdom. In connection with the impairment test of goodwill, only assets with background from the Altinex acquisition in 2007 are included

Overview of Goodwill per cash generating unit

(NOK million)	Currency	Exchange rate	Cost price in local currency	Date of acquiring	Book value as of 31.12
Altinex Norway	NOK	1.00	232	01.07.07	(0)
Altinex UK	USD	6.08	120	01.07.07	131
Altinex Denmark	USD	6.08	42	01.07.07	43
Total goodwill (NOK)					**174**

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 31.12.2013. 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 of disposal).

The impairment calculations are based on the following assumptions:

	2013	**2012**
Discount rate (after tax)	10.0 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 2013	Internal estimated resources and reserves as of 31 December 2012
Oil price (3)	Forward curve for oil price for the period 2014-2016. From 2017 the oil price is adjusted for inflation.	Forward curve for oil price for the period 2013-2019. From 2020 the oil price is adjusted for inflation.
Currency rates	Average forward-rate for the period 2014-2017. From 2018 the eve-rage rate for 2017 is used.	Average forward-rate for the period 2013-2016. From 2017 the eve-rage rate for 2016 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 on 31 December 2013
Goodwill associated with the business in Norway, included in the Group in connection with the acquisition of Altinex ASA in 2007 was written down to zero in 2013. The Lupin prospect in PL360 was the last asset from the acquisition that defended the goodwill in Norway. The well was drilled in Q1 2013 and resulted in a dry well. There are other possible prospects in the PL360 license, but the Group has considered it appropriate to write-down the remaining goodwill for the Norwegian Altinex business, which amounted to NOK 17 million on 31 December 2012.

Goodwill associated with the business in Denmark is written down by NOK 116 million. The write-down is due to challenges with the Siri-platform which the Cecilie and Nini field are tied into and changes in estimates for future operating expenditures related to the Danish production. The remaining goodwill associated with the business in Denmark amounts to NOK 43 million on 31 December 2013.

Goodwill associated with the business in United Kingdom is written down by NOK 218 million during 2013. The write-down is due to updated expectations for the Huntington regularity, production and operating expenditures for the next years, and the fact that the valuation of the Huntington-license is impacted by a reduced value on Fulmar due to updated information regarding the market value of comparable non-developed discoveries on the British continental shelf. The remaining goodwill associated with the business in the United Kingdom amounts to NOK 131 million on 31 December 2013.

Result from impairment test of License and capitalised exploration expenses as of 31 December 2013
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 the Amalie discovery in Denmark is amortised/written off in 2013. Recent technical work by the operator and Noreco on the discovery has shown that there is basis for increasing the volume estimates; however, the operator has decided that they will not pursue a development of this discovery. The write-off of Amalie contributes with extra exploration expense which amounted to NOK 255 million pre tax and NOK 191 million post tax.

License P1650 with the Crazy Horse-prospect in United Kingdom has been relinquished after Noreco has decided not to drill the well. Capitalised expenditures related to drilling preparations were written off during 2013 and amounted to NOK 16 million pre tax and NOK 6 million post tax.

The other expensed capitalised exploration costs in 2013 are related to exploration wells which were drilled in 2013 and concluded to be dry, and some expenses related to wells drilled in previous years where the final expenditures have been changed due to license audits etc. The main items relate to PL360 Lupin (NOK 50 million pre tax and NOK 11 million post tax) and PL453 Ogna (NOK 96 million pre tax and NOK 21 million post tax) in Norway, and P1658 Scotney (NOK 120 million pre tax and NOK 46 million post tax) in the United Kingdom. Other expenses amounted to NOK 18 million pre tax.

In total these expenses amount to NOK 556 million pre tax (NOK 378 million post tax). They are presented as exploration expenses in the statement of comprehensive income (tax impact is included in the line items for income tax benefit).

The remaining assets with capitalised exploration and evaluation expenditures have a recoverable amount that exceeds the book value at the level that the assets are tested for impairment. The main assets are P1114 Huntington Fulmar (NOK 576 million) and PL492 Gohta (NOK 134 million).

Huntington Fulmar is included in a combined cash generating unit for the Huntington license which also includes the producing field Huntington Forties when performing the impairment test.

See further information in note 2.6. b), 2.7 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
Goodwill
The impairment tests performed during 2013 showed that the carrying amount of goodwill exceeded the recoverable amount for Norway, Denmark and UK. After the impairments, the book value of UK goodwill at 31 December 2013 is equal to the recoverable amount for the UK cash generating unit. The book value of Danish goodwill at 31 December 2013 is below the recoverable amount. The headroom in the Danish cash-generating unit for impairment test of goodwill amounts to NOK 19 million at 31 December 2013.

The most sensitive assumptions used in the calculations are the resource and reserve estimates, regularity for the Group's producing fields, discount rate, foreign exchange rates and oil price. A negative change in the oil price with 5 percent will impact the recoverable amount for the Group's total goodwill by NOK 76 million. An increase of the discount rate to 11 percent will impact the recoverable amount for the Group's total goodwill by NOK 17 million. A 10 percent negative change in the expected regularity for the Group's producing fields will impact the recoverable amount for the Group's total goodwill by NOK 80 million. Sensitivity for the resource and reserve assumptions and foreign exchange rates is approximately the same as the sensitivity for change in oil price. If all negative effects should be applicable at the same time, the maximum exposure for goodwill write-down is equal to the book value of the goodwill amounting to NOK 174 million.

Licenses and capitalised exploration expenditures
Related to the impairment test of the assets classified as Licenses and capitalised exploration expenditures, the most sensitive assumption is the assessment of commerciality. During 2014 an appraisal well with a new target in the Gohta discovery is expected to clarify if the size of the discovery exceeds commercial thresholds. If the results from the well show that the discovery will not be economically viable, the capitalised expenditures incurred during 2013 must be written off. These expenditures amount to NOK 134 million pre tax and NOK 29 million post tax.

The company's plan and intention is to develop the Jurassic discovery in the Huntington-license on the British continental shelf (Huntington Fulmar). There is currently an ongoing project in the partnership which is evaluating all alternative development solutions of the discovery. In a potential scenario where the partnership concludes not to continue the work with a development, it will require a write-off of the book value which amounts to NOK 576 million pre tax and NOK 240 million post tax. The amount is based on the foreign exchange rate at 31 December 2013.

Notes

12 Property, plant and equipment

Property, plant and equipment on 31 December 2013

(NOK million)	Asset under construction	Production facilities	Office equipment and fixtures	Total
Acquisition costs 31 December	2 257	2 633	4	4 893
Presentation adjustment	-	251	-	251
Acquisition costs 1 January 2013	2 257	2 884	4	5 144
Additions	36	14	-	49
Capitalised interest	-	-	-	-
Transferred from Asset Under Construction to Production Facilities	(2 448)	2 448	-	-
Revaluation abandonment assets	46	(91)	-	(45)
Disposal	-	-	-	-
Currency translation adjustment	109	260	0	369
Acquisition costs 31 December 2013	**-**	**5 514**	**4**	**5 518**
Accumulated depreciation				
Accumulated depreciation and write-downs 31 December 2012	-	899	4	902
Presentation adjustment	-	251	-	251
Accumulated depreciation and write-downs 1 Januar 2013	-	1 150	4	1 153
Depreciation	-	319	-	319
Disposals	-	-	-	-
Write-downs	-	917	-	917
Reversal of write-downs	-	(57)		(57)
Currency translation adjustment	-	98	0	99
Accumulated depreciation and write-downs 31 December 2013	**-**	**2 427**	**4**	**2 431**
Book value 31 December 2013	**-**	**3 087**	**0**	**3 087**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	UoP	Straight line	

Property, plant and equipment on 31 December 2012

(NOK million)	Asset under construction	Production facilities	Office equipment and fixtures	Total
Acquisition costs 1 January 2012	3 053	1 607	8	4 668
Additions	355	131	-	486
Capitalised interest	11	-	-	11
Transferred from Asset Under Construction to Production Facilities	(976)	976	-	-
Revaluation abandonment assets	-	12	-	12
Disposal	-	-	(4)	(4)
Currency translation adjustment	(186)	(94)	-	(280)
Acquisition costs 31 December 2012	**2 257**	**2 632**	**4**	**4 893**
Accumulated depreciation				
Accumulated depreciation and write-downs 1 January 2012	-	363	8	371
Depreciation	-	269	-	269
Disposals	-	-	(4)	(4)
Write-downs	-	303	-	303
Currency translation adjustment	-	(37)	-	(37)
Accumulated depreciation and write-downs 31 December 2012	**-**	**898**	**4**	**902**
Book value 31 December 2012	**2 257**	**1 734**	**-**	**3 991**
Economic life	N/A	N/A	3–5 years	
Depreciation plan	N/A	UoP	Straight line	

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 (Value-in-use).

Main assumptions applied for the impairment test on 31 December

	2013	2012
Discount rate (after tax)	10.0 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 (2)	Internal estimated reserves as of 31 December 2013	Internal estimated reserves as of 31 December 2012
Oil price (3)	Forward curve for oil price for the period 2014-2016. From 2017 the oil price is adjusted for inflation.	Forward curve for oil price for the period 2013-2019. From 2020 the oil price is adjusted for inflation.
Currency rates	Average forward-rate for the period 2014-2017. From 2018 the everage rate for 2017 is used.	Average forward-rate for the period 2013-2016. From 2017 the everage rate for 2016 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 and investment costs significantly affect the value of future cash flows and can be reasonably estimated over the total lifetime of the oil fields.

(2) The Company's reserve estimates are applied for impairment testing. The reserves are annually verified by an independent party. See further information in note 31.

(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 historical correlation. Revenue for each field is adjusted for the quality of the product. For some fields, Noreco has entered into fixed price agreements, and such prices are applied for those fields when calculating the future cash flows.

Result from impairment test as of 31 December 2013
The Oselvar field in Norway has not delivered as expected since it came on stream in the second quarter 2012. In the license-partnership, work with rebuilding a reservoir model to assess what can be done to improve the production from the field has been conducted. Based on this new work, the operator communicated an updated reserve estimate, which was significantly lower than the previous estimate. Noreco has applied this estimate for the assessment of the reserves that are applied for impairment testing purposes. Due to this, write-downs of total NOK 388 million pre tax (NOK 104 million post tax) have been charged to the income statement during 2013.

For the Norwegian field Enoch, previously recognised write-downs of NOK 12 million pre tax (NOK 3 million post tax) have been reversed. The reversal is related to the fact that expenditures that in previous impairment tests were included in the future cash flows are now paid in connection with conducted work on the field at the end of 2013. It is expected that the field will start producing again during the first half of 2014.

The fields in Denmark, which are producing through the Siri-platform (Nini and Cecilie), have been shut-in for the entire second half of 2013. As a consequence of the challenges with these fields, expected higher future production expenses and lower regularity the first year, write-downs of totally NOK 484 million pre tax (NOK 363 million post tax) has been made during 2013.

Sensitivities related to the impairment test of assets which are carried at recoverable amount
Book value of Oselvar, Enoch and Siri fairway are equal to the recoverable amount by the end of the year, and change in the assumptions may require future write-downs. The write-downs can be fully or partially reversed if new information results in increased recoverable amounts.

The calculated values are most sensitive to changes in the reserve estimates, regularity for the Group's producing fields, discount rate, foreign exchange rates and oil price. The table below shows the sensitivities for the Group's assets carried at recoverable amont values (before tax).

Change of calculated value (before tax) if:

NOK million	Discount rate is changed to 11 percent	Oilprice reduced with 5 percent	Regularity reduced with 10 percent
Siri Fairway (Nini and Cecilie)	(7)	(77)	(15)
Enoch	-	(2)	(2)
Oselvar	(19)	(24)	(19)

Sensitivity for the reserve assumptions and foreign exchange rates is approximately the same as the sensitivity for change in oil price.

13 Financial income and expenses

(NOK million)	2013	2012
Financial income		
Interest income	24	24
Gain on extinguishment of debt (note 23)	523	-
Foreign exchange rate	22	51
Other financial income	1	1
Total financial income	**570**	**76**
Financial expenses		
Interest expense from bond loans	(407)	(365)
Interest expense from reserve based loan	(33)	(39)
Interest expense from exploration loan	(32)	(42)
Interest expenses current liabilities	(3)	(8)
Capitalised interest expenses	-	11
Accretion expense related to asset retirement obligations (ref note 22)	(25)	(27)
Loss on repurchase of bond	(3)	-
Foreign exchane losses	(36)	(59)
Other financial expenses	(17)	(34)
Total financial expenses	**(556)**	**(562)**
Net financial items	**15**	**(486)**
Cash flow details relating to financial income and expenses		
Amortisation		
Amortisation of borrowing costs included in interest expenses	82	48
Paid borrowing cost		
Incurred borrowing cost	(95)	(62)
Unpaid borrowing cost at year end	34	0
Paid borrowing cost for the period	**(61)**	**(62)**

14 Tax

Income tax benefit

(NOK million)	2013	2012
Tax payable	(17)	(75)
Tax refundable	378	1 350
Change in deferred tax/-deferred tax asset	511	(22)
Deferred tax asset previosly not recognised	74	150
Change regarding previous years	2	(1)
Change in tax rates	2	
Other items	(4)	(0)
Income tax benefit	**947**	**1 401**
Domestic income tax benefit	592	1 097
Foreign income tax benefit	354	304

Tax expense relating to other comprehensive income

(NOK million)	2013	2012
Remeasurement of defined benefit pension plans	(1)	(11)
Cash flow hedge	-	-
Discontinued cash flow hedge	-	-
Currency translation adjustment	-	-
Total tax expense on other comprehensive income	**(1)**	**(11)**

Reconciliation of nominal to actual tax rate:

(NOK million)	2013	%	2012	%
Income (loss) before tax	**(1 954)**		**(1 994)**	
Calculated 28% tax on profit before tax	547	28 %	558	28 %
Adjustment of calculated tax in foreign subsidiaries in relation to 28% tax	(28)	(1) %	1	0 %
Petroleum tax	498	25 %	690	35 %
Tax effect of:				
Recognised change deferred tax from previous years	74	4 %	124	6 %
Effect of change in tax rate	2	0 %	-	0 %
Permanent differences	(134)	(7) %	(85)	(4) %
Other items	(12)	(1) %	112	6 %
Income tax benefit	**947**	**48 %**	**1 401**	**70 %**

Tax refund
Noreco Norway AS is the only entity with exploration activity in Norway during 2013. In 2012 Norwegian Energy Company ASA was the only entity with exploration activity in Norway.

Basis for tax refund for exploration expenses

(NOK million)	2013	2012
Loss before tax in Norwegian exploration company	(804)	(1 390)
Financial items (onshore)	78	379
Permanent differences	0	4
Change in temporary differences (ex. financial items)	(108)	154
Onshore expenses	0	24
Non- exploration expenses - offshore	350	38
Basis for exploration tax refund 78 %	**(485)**	**(792)**
Calculated exploration refund	**378**	**618**

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

(NOK million)	2013	2012
Offshore lossess carry forward 28 %	-	(2 408)
Offshore lossess carry forward 50 %	-	(94)
Calculated tax refund regarding discontinuing of petroleum activity	**-**	**721**
Total calculated tax refund	**378**	**1 339**

On 31 December 2012, Norwegian Energy Company ASA completed the 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 thereby became owner of all of 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, it claimed payment from the Norwegian government for the tax value of its uncovered losses pursuant to Norwegian Petroleum Taxation Act section 3(c)(4). Tax refund for 2012 of NOK 1 351 million was received in December 2013.

Tax payable
Tax payable relates to the group's enteties in Denmark and UK. The amounts payable on December 31 were:

(NOK million)	2013	2012
Tax payable other countries	13	51

Deferred tax and deferred tax asset:

(NOK million)	2013	2012
Net operating loss deductable	(1 979)	(703)
Fixed assets	2 392	2 888
Current assets	177	197
Liabilities	615	(84)
Other	(226)	(294)
Basis of deferred tax/deferred tax asset	**979**	**2 003**
Net deferred tax/deferred tax asset	**660**	**1 125**
Unrecognised deferred tax asset	-	8
Deferred tax/deferred tax asset recognised	**660**	**1 134**
Recognised deferred tax asset (1)	293	105
Recognised deferred tax (2)	953	1 245
Recognised deferred tax asset domestic	288	52
Recognised deferred tax asset foreign	5	53
Recognised deferred tax domestic	24	0
Recognised deferred tax foreign	930	1 245
Net deferred tax/deferred tax asset	**660**	**1 140**

(1) Deferred tax asset relates to Norwegian and Danish 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.

There is a net deferred tax position relating to the UK companies. The position consists of deferred tax relating to temporary differences partly offset by a deferred tax on tax loss carry forward. The recognition of the deferred tax assets is based on the expectation that sufficient taxable income will be available through future taxable income in the UK. Planned restructuring of Noreco's business in the UK is included in such assessment in accordance with IAS 12.36.(d).

Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities have, or are expected to have, 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.

Deferred tax asset in 2012 has been adjusted to reflect changes relating to IAS 19R. See note 21 for details.

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 settled for each specific year.

Net operating loss deductable - expiry dates

NOK million	2013
Unlimited	(1 559)
Expires:	
2014	(3)
2015	(3)
2016	(17)
2017	(34)
2018	(70)
2019	(96)
2020	(197)
Sum	(1 979)

Tax losses that expires in accordance with the table is relating to Norwegian Energy Company (UK) Limited (UK) Limited.

15 Earnings per share

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

(NOK million)	2013	2012
Net loss attributable to ordinary shareholders	(1 008)	(593)
Shares issued 1 January	353 831 111	243 842 914
Shares issued during the year	4 302 262 971	109 988 197
Shares issued on 31 December	4 656 094 082	353 831 111
Weighted average number of ordinary shares	674 891 644	262 426 363
Earnings per share (NOK 1)		
Earnings per share	(1.49)	(2.26)
Diluted earnings per share	(1.49)	(2.26)

The Company has implemented an option program which includes all employees in the Group. In addition, employees are granted bonus shares, which will give right to new matching shares after a vesting period. See more information regarding the possible number of new shares in note 25.

Further, the Company has issued a convertible bond that can be converted into shares. See further information in note 23.

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

In 2014 1 002 391 002 new shares have been issued, ref. note 32. These will impact the future calculations of earnings per share.

16 Trade receivables and other current receivables

(NOK million)	2013	2012
Tax receivables	15	0
Trade receivables*	106	139
Receivables from operators relating to joint venture licenses*	43	40
Underlift of oil/NGL 1)*	17	38
Prepayments	2	0
Other receivables (ref note 28)*	368	346
Total other current receivables	**551**	**564**

* See note 19 for fair value disclosures

(1) Specification of underlift oil/NGL (*)	boe	USD/boe	Value (NOK million)
Underlift oil	26 815	104.67	17
Underlift NGL	443	20.71	0
Total underlift	**27 258**	**103.31**	**17**

(*) Underlift and overlift oil and NGL from the different fields is presented as gross amounts. For specification of overlift, see note 24 Trade Payables and other Payables.

Current receivables in currency (NOK million)	2013	2012
NOK	34	41
DKK	35	4
USD	472	466
GBP	10	53
EUR	0	0
Total	**551**	**564**

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 2013 and 2012.

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.

Ageing analysis of trade receivables and other short term receivables

31 December 2013			Past due				
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Tax receivables	15	15	-	-	-	-	-
Trade receivables	106	102	4	-	-	0	1
Receivables from operators relating to joint venture of oil/NGL	43	43	-	-	-	-	-
Underlift of oil/NGL	17	17	-	-	-	-	-
Prepayments	2	2	-	-	-	-	-
Other receivables	368	6	-	-	-	-	363
Total	**551**	**184**	**4**	**-**	**-**	**0**	**363**

Ageing analysis of trade receivables and other short term receivables

31 December 2012			Past due				
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Tax receivables	-	–	-	-	-	-	-
Trade receivables	139	139	-	-	-	-	-
Receivables from operators relating to joint venture of oil/NGL	40	38	1	0	0	0	1
Underlift of oil/NGL	38	38	-	-	-	-	-
Prepayments	0	0	-	-	-	-	-
Other receivables	346	5	-	-	-	-	341
Total	**564**	**221**	**1**	**0**	**0**	**0**	**342**

17 Restricted cash, bank deposits, cash and cash equivalents

Specification of restricted cash, bank deposits, cash and cash equivalents

(NOK million)	2013	2012
Non-current assets	500	0
Restriced cash pledged as security for abandonment obligaion in Denmark (1)		
Current assets		
Restricted cash which can only be used for collateral for abandonment obligation or repayments to bondholder:	70	0
Other restriced cash and bank deposits	4	20
Total restricted cash	**74**	**20**
Unrestricted cash, bank deposits and cash equivalents	403	584
Total bank deposits	**978**	**604**

(1) Norwegian Energy Company ASA maintains a Debt Service Reserve Account which will be used as security for covering the abandonment obligation in Denmark related to the Cecilie and Nini fields (DKK 500 million). In February 2014 an agreement was reached with Dong & RWE where Noreco agreed to transfer DKK 445 million to an escrow account that is pledged in favor of DONG and RWE.

There is a general liquidity requirement of minimum NOK 100 million at Noreco group level in accordance with the covenants for the bond loans. See note 23.5.

Cash held in different currency

	2013		2012	
(NOK million)	**Amount in currency**	**NOK**	**Amount in currency**	**NOK**
NOK	913	913	381	381
DKK	10	11	5	5
USD	8	47	34	188
EUR	-	-	0	2
GBP	1	7	3	28
Total		**978**		**604**

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

Overdraft facilities

On 31 December 2013

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available (1)
NOK (Exploration loan facility in Noreco Norway AS)	1 240	1 240	345	895	-
USD (overdraft facility in Noreco Oil Denmark AS)	3	18	-	18	18
Total		**1 258**	**345**	**913**	**18**
Unrestriced cash and cash equivalents					403
Accessible liquidity on 31 December 2013					**422**

(1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled for 78 percent tax refund from the Norwegian tax authorities. On 31 December 2013 the available amount was fully utilised based on incurred exploration costs which will covered by refund for 2013.

On 31 December 2012

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
NOK (exploration loan)	573	573	573	-	-
USD (overdraft facility in Noreco Oil Denmark AS)	3	17	5	11	11
USD (reserve based lending facilities)	108	603	551	52	52
Total		**1 192**	**1 129**	**63**	**63**
Unrestriced cash and cash equivalents					584
Accessible liquidity on 31 December 2012					**647**

18 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 sales price. This is done by buying put options for part of the estimated oil production. These options give the company a right, but not an obligation, to sell oil at a minimum price at USD 70 per barrel. For accounting purposes, these options are classified as derivatives held for trade and are measured at fair value through profit or loss.

On 31 December 2013 the Group has the following option contracts:

	Cost (USD million)	Book value (USD million)	Book value / Fair value (NOK million)
Options expiring in 2014	2	0.07	0
Options expiring in 2015	1	0.16	1
Total book value options contracts	**3**	**0.23**	**1**

On 31 December 2012 the Group had the following option contracts:

	Cost (USD million)	Book value (USD million)	Book value / Fair value (NOK million)
Options expiring in 2013	3	0.3	2
Options expiring in 2014	2	1	6
Total book value options contracts	**5**	**1.3**	**7**

Interest rate swap agreements
The Group has entered into interest rate swap agreements to secure a fixed interest for most of the Group's loans with floating interest prior to the refinancing (Note 23). The agreements match the critical terms of the loan agreements, and 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 coprehensive income. Ineffectiveness is recognised through ordinary profit or loss.

Change in fair value of the hedging instruments which is recognised through other comprehensive income during 2013 amounts to NOK 7 million. The hedge accounting for the interest rate swap agreements ceased in December 2013 as the underlying debt was refinanced. As a consequence all impacts in other comprehensive income relating to hedge accounting were reclassified to Other (losses)/ gains in the income statements. A total amount of NOK 4 million was reclassified (ref. note 10). The remaining interest swap agreement is carried at fair value thourgh ordinary profit and loss.

On 31 December 2013, the remaining instrument had the following terms:

Derivate held for trading:	Notional principal	Receive	Pay	Maturity	Fair value 31.12.13
Interest rate swap	325 NOK	3M NIBOR	2.58 %	27.04.16	(4)
Total book value of interest rate swaps					**(4)**

On 31 December 2012, the Group had the following interest:

Hedged interest payments for:	Notional principal	Receive	Pay	Maturity	Fair value 31.12.12
NOR05	700 NOK	3M NIBOR	2.525 %	06.12.13	(5)
NOR07	325 NOK(1)	3M NIBOR	2.58 %	27.04.16	(5)
Reserve-based loan facility (RBL)	170 USD(1)	3M LIBOR	1.82 %	31.12.13	(1)
Total book value of interest rate swaps					**(11)**

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

Change in fair value of the hedging instruments which is recognised through other comprehensive income during 2012 amounts to NOK 11 million.

19 Financial instruments

19.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows (se also note 3.3)

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.

On 31 December 2013

(NOK million)	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements of assets				
Financial assets at fair value through profit or loss				
- Trading derivatives		1		1
- Underlift of oil (ref. note 16)		17		17
Total	-	**19**	-	**19**
Liabilities				
Recurring fair value measuremenst of liabilities				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements (ref. note 18) (1)		4		4
- Overlift of oil (ref. note 2)		16		16
Total	-	**20**	-	**20**
Liabilities for which fair values are disclosed				
Bonds (current and non-current, ref. note 23.1)		2 481		2 481
Total	-	**2 481**	-	**2 481**

(1) In Q4 2013 the hedging relationship for the interest rate swap agreement was broken when the related bond agreement was refinanced and the terms for interest payments were changed from being a floating interest (NIBOR + margin), to fixed interest. Hence, the derivative contract is reclassified from “Derivatives used for hedging” to “Financial instruments at fair value through profit or loss”.

There have been no transfers between any levels during the period.

On 31 December 2012

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

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.

19.2 Financial instruments by category

On 31 December 2013

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Derivatives	-	1	1
Trade receivables and other current assets	527	17	544
Bank deposits, cash and cash equivalents	978	0	978
Total	**1 505**	**19**	**1 523**

(NOK million)	Other financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loan	2 481		2 481
Other interest bearing debt	333		333
Derivatives (1)		4	4
Trade payables and other current liabilities	294	16	310
Total	**3 107**	**20**	**3 127**

(1) In December 2013 the hedging relationship for the interest rate swap agreement was broken when the related bond agreement was refinanced and the terms for interest payments were changed from being a floating interest (NIBOR + margin), to fixed interest. Hence, the derivative contract is reclassified from “Derivatives used for hedging” to “Financial instruments at fair value through profit or loss”.

On 31 December 2012

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Derivatives	-	7	7
Trade receivables and other current assets	526	38	564
Bank deposits, cash and cash equivalents	604	0	604
Total	**1 130**	**45**	**1 175**

(NOK million)	Derivatives used for hedging	Other financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities				
Bond loan	-	2 779	-	2 779
Other interest bearing debt	-	1 105	-	1 105
Derivatives	11	-	-	11
Trade payables and other current liabilities	-	331	45	379
Total	**11**	**4 215**	**45**	**4 271**

19.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments:

On 31 December 2013

(NOK million)	Carrying amount	Fair value
Financial assets		
Derivatives (ref. note 18)	1	1
Trade receivables and other current assets (ref. note 16) (1)	534	534
Restricted cash, bank deposits, cash and cash equivalents (ref. note 17) (1)	978	978
Total	**1 513**	**1 513**
Financial liabilities		
Bonds (current and non-current, ref note 23.1)	2 481	2 481
Other interest bearing debt (ret. note 23.1)	333	333
Derivatives (ref. note 18)	4	4
Trade payables and other current liabilities (ref. note 24) (1)	310	310
Total	**3 127**	**3 127**

(1) The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information is not required.

On 31 December 2012

(NOK million)	Carrying amount	Fair value
Financial assets		
Derivatives (ref. note 18)	7	7
Trade receivables and other current assets (ref. note 16) (1)	564	564
Restricted cash, bank deposits, cash and cash equivalents (ref. note 17) (1)	604	604
Total	**1 175**	**1 175**
Financial liabilities		
Bonds (ref note 23)	2 779	2 853
Other interest bearing debt (ret. note 23)	1 105	1 105
Derivatives (ref. note 18)	11	11
Trade payables and other current liabilities (ref. note 24) (1)	376	376
Total	**4 271**	**4 345**

(1) The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information in not required.

20 Share capital

	2013	2012
Ordinary shares	4 656 094 082	353 831 111
Total shares	**4 656 094 082**	**353 831 111**
Fair value (NOK 1)	0.10	3.10

The Group does not own any of its parent company shares. All shares have equal rights.

Changes in number of shares and share capital:

(NOK million)	No. of shares	Share Capital
Share capital on 1 January 2012	**243 842 914**	**756**
Share issue November 2012	108 108 108	335
Repair share issue November 2012	1 038 010	3
Share issue employees	842 079	3
Share capital on 31 December 2012	**353 831 111**	**1 097**
Share capital on 1 January 2013	**353 831 111**	**1 097**
Share issue employees on 14 January 2013	1 814 206	6
Share issue employees on 18 March 2013	448 778	1
Share issue on 4 December 2013	4 299 999 987	430
Capital reduction on 31 December 2013		(1 068)
Share capital on 31 December 2013	**4 656 094 082**	**466**

Changes in 2013
On 14 January 2013 Noreco, issues 1 814 206 employee incentive scheme shares.
On 18 March 2013, Noreco issued 448 778 new shares to its employees in connection with bonus reward for 2012.
On 4 December 2013, Noreco issued 138 709 677 A-shares at par value NOK 3.10. The A-shares were automatically converted to ordinary shares simultaneously with the completion of the share capital reduction through a reduction of nominal value from NOK 3.10 to NOK 0.10, through a share split in which each of the A-shares was split and converted to 31 ordinary shares of totally 4 299 999 987 ordinary shares.
The share share capital reduction was formally approved on 31 December 2013 after the creditor period resulting in a reduction of share capital of NOK 1 068 million.

Changes in 2014
On 21 January 2014, the repair share issue related to the refinancing in the fourth quarter 2013 was received by the Company.
On 14 February 2014, Noreco issued new shares as part of its employee incentive scheme. Following registration of the share capital increase the total number of shares issued in Noreco are 5 658 485 084, each with a nominal value of NOK 0.10. See note 32 for further information.

Existing mandates
The Board of Directors was in 2013 granted a mandate by the General Meeting to issue up to 7 000 000 shares to the employees. The mandate expires on 1 June 2014. The mandate has been utilised once, when 2 391 002 shares were issued in February 2014 as part of the bonus scheme. The remaining mandate is 4 608 998 shares.

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

Overview of shareholders on 12 March 2014:

Name	Shareholding	Ownership share	Voting share
SABARO INVESTMENTS	1 536 354 828	27.15 %	27.15 %
IKM INDUSTRI-INVEST	1 029 470 893	18.19 %	18.19 %
MP PENSJON PK	204 516 300	3.61 %	3.61 %
OM Holding AS	159 615 900	2.82 %	2.82 %
ALTO HOLDING AS	90 000 000	1.59 %	1.59 %
CITIBANK, N.A. S/A IF SKADEFORSAKRI	56 608 700	1.00 %	1.00 %
VERDIPAPIRFONDET DNB	50 748 746	0.90 %	0.90 %
AWILCO INVEST AS	49 999 900	0.88 %	0.88 %
BD TRADING AS	41 850 000	0.74 %	0.74 %
CARE HOLDING AS	41 850 000	0.74 %	0.74 %
JFH FINANS AS	40 000 000	0.71 %	0.71 %
Goldman Sachs	36 998 500	0.65 %	0.65 %
IMPORTER AS	34 000 000	0.60 %	0.60 %
NORDNET PENSJONSFORS	30 396 101	0.54 %	0.54 %
LYSE ENERGI AS	27 701 514	0.49 %	0.49 %
NORDNET BANK AB	26 568 509	0.47 %	0.47 %
ANKO INVEST AS	26 183 000	0.46 %	0.46 %
HAMNINGBERG HOLDING	26 000 000	0.46 %	0.46 %
MORGAN STANLEY & CO	21 488 755	0.38 %	0.38 %
PEDERSEN ATLE SANDVIK	20 682 852	0.37 %	0.37 %
Total	**3 551 034 498**	**62.8 %**	**62,8 %**
Other owners (ownership <0.37 %)	**2 107 450 586**	**37.2 %**	**37.2 %**
Total number of shares on 12 March 2014	**5 658 485 084**	**100 %**	**100 %**

21 Post-employment benefits

Defined benefit plan
Up until 31 December 2013, employees in certain of the Norwegian companies had a defined benefit plan in a life assurance company. The plan comprises 56 persons as of 31 December 2012. The remainder of the employees are covered through a defined contribution plan. On 31 December 2013 the defined benefit plans were changed to defined contribution plans, and as a consequence the Group does not have a pension liability in the balance sheet on 31 December 2013.

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

Changes to IAS 19 Employee benefits - impacts on the financial statements
Effective as of 1 January 2013, Noreco has utilised IAS 19 Benefits to employees (June 2011) (”IAS 19R”) and altered the basis for calculation of pension liabilities and pension costs. The company has previously applied the ”corridor” method for accounting of unamortised estimate deviations. The corridor method is no longer allowed and, in accordance with IAS 19R, all estimate deviations are to be recognised under other comprehensive income (OCI). The corridor on 1 January 2012, which amounted to NOK 5.3 million, has been reset to zero. Pension liabilities increased correspondingly from NOK 10.3 million to NOK 15.6 million on 1 January 2012, whereas the equity was reduced by NOK 1.2 million (after tax).

Return on pension plan assets was previously calculated on the basis of a long-term expected return on the pension plan assets. Due to the application of IAS 19R, the net interest cost of the period is now calculated by applying the discount rate applicable to the liability at the start of the period on the net liability. Thus, the net interest cost comprises interest on the liability and return on the pension plan assets, both calculated with the discount rate. Changes in net pension liabilities due to premium payments and pension benefits are taken into consideration. The difference between actual return on the pension plan assets and the recognised return is recognised against the OCI on an ongoing basis. The pension cost in 2012, recognised in accordance with the prior principles, amounted to NOK 14.8 million.

As a consequence of the altered principle for handling of unamortised estimate deviations and calculation of net interest cost, the recognised pension cost increased to NOK 15.0 million, whereas an estimate deviation in the amount of NOK 2.9 million was charged to other comprehensive income. The pension liability on 31 December 2012 decreased from NOK 15 million to NOK 7.1 million. IAS 19 R has been applied retrospectively, and the corresponding figures have been changed.

The adoption impact and retrospective adoption had the following impact on the comprehensive income for 2012, and the opening and closing statement of financial positions for 2012:

(NOK million)	2012
Consolidated statement of comprehensive income	
Payroll expenses	-
Remeasurement of defined benefit pension plans	3

Consolidated statement of financial positions	31.12.12	01.01.12
Deferred tax asset	(6)	4
Other equity	2	(1)
Pension obligation	(8)	5

During 2013 and prior to cancellation of the defined benefit plan, a net actuarial gain of NOK 1 million was charged to other comprehensive income.

Changes to the employee pension plans - cancellation of the defined benefit plan and impacts on the financial statements

Early in December 2013, employees were informed that the Group's defined benefit plans were cancelled and replaced by defined contribution plans. Upon cancellation, a net settlment gain of NOK 7 million (including social security tax) reduced the current year pension cost. The current year pension cost including the settlement amounted to NOK 4 million.

During 2013 total payments of NOK 10 million were made to the plan (2012: NOK 9 million).

Pension costs related to the company's defined contribution plan amounts to NOK 1 million for 2013. For 2012 the corresponding costs were NOK 1 million.

22 Asset retirement obligations

Specification of asset retirement obligations

(NOK million)	2013	2012
Balance on 1 January	323	298
Provisions made during the year	(45)	17
Accreation expense – present value calculator	25	27
Currency translation	24	(18)
Provision made for asset retirement obligations on 31 December	**327**	**323**

Provisions made for asset retirement obligations includes the future expected costs (esimtated based on current day costs inflated) for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a risk-free rate adjusted for credit risk of 9 percent, which represent the Group's expected average alternative borrowing interest, to calculate the net present value of the obligation. Inflation is assumed to be 2 percent.

Expected maturity

(NOK million)	2013	2012
1-5 years	5	12
6-10 years	104	300
over 10 years	218	10
Provision made for asset retirement obligations on 31 December	**327**	**323**

23 Borrowings

23.1 Summary of borrowings

		2013		2012	
(NOK million)	Note	Principal amount	Book value	Principal amount	Book value
Non-current debt					
Bond loan NOR06	23.3	500	402	-	-
Bond loan NOR10 1st Lien	23.3	899	829	-	-
Bond loan NOR10 2nd Lien	23.3	736	502	-	-
Bond loan NOR12 Convertible	23.3, 23.5	367	206	-	-
Total non-current bonds		**2 502**	**1 939**	**-**	**-**
Reserve-based loan	23.4	-	-	262	243
Total non-current other interest bearing debt		**-**	**-**	**262**	**243**
Current debt					
Bond loan NOR04 (1)	23.3	-	-	1 250	1 222
Bond loan NOR05	23.3	-	-	700	682
Bond loan NOR06 (1)	23.3	100	80	275	267
Bond loan NOR07 (1)	23.3	-	-	325	315
Bond loan NOR08	23.3	-	-	300	293
Bond loan NOR10 1st Lien	23.3	500	461	-	-
Total current bonds		**600**	**541**	**2 850**	**2 779**
Exploration loan	23.4	345	333	573	573
Reserve-based loan	23.4	-	-	289	289
Total non-current other interest bearing debt		**345**	**333**	**862**	**862**
Total borrowings		**3 447**	**2 813**	**3 974**	**3 884**

(1) In the statement of financial positions on 31 December 2012 and in one or more of the quarters in 2013 the long term portion of the bond loans NOR04, NOR06 and NOR07 was classified as current liabilites as 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 waiver with 12 months duration from the balance sheet date.

23.2 The refinancing

On 21 October 2013 the Company announced a proposed comprehensive refinancing of all its bond loans totalling around NOK 3.1 billion, resulting in a new bond structure in combination with a private placement of new shares. The purpose of the transactions was to strengthen the financial position for further development of the Group.

The importance of a full refinancing of the Company became evident by a series of events: Sustained production problems at Huntington and continued shut-down of Danish fields, combined with a demand from the partners in the Nini and Cecilie licenses for a guarantee for the abandonment obligation in Denmark. As the Group had a high yield credit rating, the partners could not accept a parent company guarantee. Therefore, the guarantee was required to be cash collateral or a bank guarantee. This led the banks behind the reserve based lending facility (the ”RBL”) to not approve a continuance of the previously approved waivers. Further, the RBL-banks decided to reduce the Group’s borrowing limit from approx. NOK 420 million (USD 69.9 million) to approx. NOK 150 million (USD 25 million) from 15 October 2013.

Furthermore the banks disallowed Noreco to transfer cash from the Danish subsidiaries to the parent Company in order to cover current operating expenses and interest. In total, the result of this was that the parent Company and the Norwegian operations would run out of cash by mid-November 2013, and would be unable to pay current obligations, both operational costs and financial costs. In other words the liquidity changes in the Company were in aggregate due to delayed revenues, lack of new loans, withdrawn credit and the fact that the Company had to have cash available for the guarantee in relation to the abandonment obligations. The board considered it necessary to immediately initiate a significant financial restructuring.

The Refinancing resulted in the bond loans outstanding being replaced (through amendments or roll-overs) with certain new bonds issued as follows:

– NOK 1 399 million 3 year Senior Secured Callable Bond Issue (6.0 per cent interest) with security in the Huntington and producing Danish assets;
– NOK 600 million 4 year Senior Secured Callable Bond Issue (6.5 per cent interest) with security in the Oselvar assets and in addition a second lien security in the Huntington and producing Danish assets;
– NOK 736 million 5.5 year Second Lien Callable Bond Issue (6.75 per cent interest) with second lien security in the Huntington and producing Danish assets pari passu with the Oselvar bond; and
– NOK 367 million 5 year Senior Convertible Bond Issue (4 per cent PIK interest (”payment in kind”);

The Refinancing was implemented in conjunction with and subject to completion of the Private Placement. Both the Private Placement and the Refinancing Proposal were mutually conditional on each other. The Refinancing Proposal also assumed the full repayment of Noreco’s existing RBL facilities.

All the new bonds are subject to the same covenants. The covenants are customary in the Norwegian high yield bond market. A general liquidity requirement in the amount of NOK 100 million at Group level applies, as well as incurrence based covenants on significant asset disposals and new financial indebtedness, which are only permitted if the Group gearing ratio (net interest-bearing debt to EBITDAX, with the X only relating to exploration activity on the Norwegian continental shelf) is less than 3.5 x.

(NOK million)	Principal amount (of bonds before refinancing)	1st lien secured Oselvar Bond	1st lien Secured Huntington and Denmark Bond	2nd Lien Bond (Huntington and Denmark)	Unsecured Convertible Bond	Total principal amount refinanced bonds
Bond loans						
Ticker (new bond loans)		NOR06	NOR10	NOR11	NOR12	
Bond loan NOR04	1 220		100 %			
Bond loan NOR05	699		14.0 %	57.4 %	28.6 %	
Bond loan NOR06	275	100 %				
Bond loan NOR07	325	100 %				
Bond loan NOR08	284		14.0 %	57.4 %	28.6 %	
Bond loan NOR09	300		14.0 %	57.5 %	28.6 %	
Total bonds at the time of refinancing	**3 102**	**600**	**1 399**	**736**	**367**	**3 102**

Extinguishment of debt and calculation of gain
Due to substantial modification of terms, the refinancing has been accounted for as extinguishment of debt. The old bonds were derecognised in December 2013, and the new bond structure was recognised as new borrowings. The convertible bond includes both a liability component and an equity component. The value of the liability component has been determined using a comparable loan with no conversion features. The equity component is the residual between the fair value of the bond at the time of the listing of the bond agreement, and the calculated value of the liability component. The difference between the book value of the old bonds at the date of derecognition (9 December 2013), and the fair value of the new loans has been recorded in the income statement as a gain extinguishment within the financial items.

Transaction costs incurred in the process is treated as costs of the settlement of the old debt and is included in the gain calculation. Total transactions costs relating to the financing amount to NOK 47 million.

Specification of gain on extinguishment of debt

(NOK million)	2013
Book value of old bonds on the time of derecognition:	3 058
Fair value of new bonds at initial recognition	2 489
Difference	569
Transaction cost	(47)
Net gain on extinguishment	**523**

The equity component of the convertible bonds has been calculated to NOK 16 million and has been accounted for as an increase of equity.

Measurement for initial recognition
The following fair values were observed and are applied for the new bonds at initial recognition:

NOR 06 - Oselvar 1. lien bond	80 %
NOR 10 - Huntington and Danish assets 1. lien	92 %
NOR 11 - Huntington and Danish assets 2. lien	68 %
NOR 12 - Unsecured convertible bond	60 %

The fair values are based on executed transactions and buy and sell orders in the period after the issue of the bonds at 9 December 2013. Reference is made to note 19 for the fair value hierarchy.

Yield for amortisation of effective interest
The difference between the par value and the fair value at the initial recognition will be included in future interest expenses as part of the effective interest. The yield for the new loans for accounting purposes are listed below:

NOR 06 - Oselvar 1. lien bond	16.1 %
NOR 10 - Huntington and Danish assets 1. lien	11.1 %
NOR 11 - Huntington and Danish assets 2. lien	17.0 %
NOR 12 - Unsecured convertible bond	17.0 %

23.3 Details on borrowing

Details on borrowings outstanding on 31 December 2013

NOR06 1st lien Secured Oselvar Bond
The bond was entered into in December 2013 with at face value of NOK 600 million and a final maturity date of 9 December 2017 (4 years after the original issue date). The bond holds a fixed interest rate of 6,5% with semi annual interest payments. The first interest payment is due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest.

Norco may redeem the bonds in whole or in parts ("call option") at 105% in 2014, 103.5% in 2015, 102.5% in 2016 and 101% in 2017. Cross default clauses exist.

The loan is listed on the Oslo Stock Exchange with the ticker NOR06.

NOR10 1st lien Secured Huntington and Denmark Bond
The bond was entered into in December 2013 with at face value of NOK 1 399 million and a final maturity date of 9 December 2016 (3 years after the original issue date). The bond holds a fixed interest rate of 6.0% with semi annual interest payments. The first interest payment is due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest.

Norco may redeem the bonds in whole or in parts ("call option") at 105% in 2014, 103% in 2015 and 101% in 2016. Cross default clauses exist.

The loan is listed on the Oslo Stock Exchange with the ticker NOR10.

NOR11 2nd Lien Bond (Huntington and Denmark)
The bond was entered into in December 2013 with a face value of NOK 736 million and a final maturity date of 9 June 2019 (5.5 years after the original issue date and reduced from the initially agreed maturity date of 9 December 2020 as commented on below). The bond holds a fixed interest rate of 6.75% with semi annual interest payments. The first interest payment is due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest.

Noreco may redeem the bonds in whole or in parts ("call option") at 105% until 2016, 104% in 2017, 103% in 2018, 102% in 2019 and 101% in 2020. In connection with the execution of the refinancing, Noreco announced a commitment to early redeem the remaining loan at 9 June 2019, and pay 102% of the principal amount as described as the redemption fee above. This change was amended to the loan agreement during February 2014. Cross default clauses exist.

The loan is listed on the Oslo Stock Exchange with the ticker NOR11.

NOR12 Unsecured Convertible Bond
The bond was entered into in December 2013 with a face value of NOK 367 million and a final maturity date of 9 December 2018 (5 years after the original issue date). The bond holds a fixed interest rate of 4.0% with semi annual interest payments. The first interest payment is due on 9 June 2014. Such interest payments to be paid in kind or cash interest at the Company's discretion. Covertible bonds issued and paid in kind interest shall have the same rights as the original convertible bonds. If interests are paid in kind the interest amount will be added to the loan balance.

Each bondholder may exercise one or more of the conversion rights at a price of NOK 0.30 per common share at any time during the exercise period. The exercise period means the period commencing on the issue date and ending on 9 December 2018 or, in the event of a new board resolution persuant to an extended authorisation by the Issuer's general meeting, to (but not including) the maturity date.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest or convert its bonds at a convertion price per common share of the issuer in accordance with a formula defined in the bond agreement.

At any time three (3) years after the issue date, Noreco shall have the right (issuer soft call option") to redeem all or some of the bonds at 100% in 2017 and 2018, subject to 120% parity check based on 20/30 last trading days. Cross default clauses exist

The loan is listed on the Oslo Stock Exchange with the ticker NOR12.

Exploration loan Noreco Norway AS
The exploration loan was issued on 19 March 2013 with a principal amount of NOK 1 240 million. Amount outstanding at 31 December 2013 is NOK 345 million. The loan holds interest rate of NIBOR 3 months plus 2.5% margin with quarterly interest payments. A full repayment of the loan is due in December the year after drawdown.

Change of control of Noreco and delisting leads to mandatory repayment. Cross default clauses exist.

Details on borrowings outstanding on 31 December 2012 and changes in 2013 prior to the refinancing

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 capitalised initially and amortised over the term of the loan. The interest was a fixed coupon rate set at 12.90% annually. Interests was paid in arrears quarterly. Remaining amortisation on 31 December 2012 was NOK 28.225 million. The loan was listed on the Oslo Stock Exchange with the ticker NOR04 and was issued against pledged collateral.

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

The loan had the following two financial conditions; The Group should maintain an equity to capital employed ratio of minimum 25 % and the Group should maintain a gearing-ratio of less than 5.0. During 2012 the gearing ratio exceeded the threshold, but a waiver was agreed with the bondholders until the end of Q1 2013, as such the Group was not in breach of the conditions of the loan agreement at the balance sheet date.

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 was capitalised initially and amortised over the term of the loan. The interest rate was NIBOR 3 months + a margin of 8.00%. Interests were paid in arrears quarterly. Remaining amortisation on 31 December 2012 was NOK 17.520 million. The loan was 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 was capitalised initially and amortised over the term of the loan. The interest was a fixed coupon rate set at 10.25% annually. Interests were paid in arrears quarterly. Remaining amortisation on 31 December 2012 was NOK 8.233 million. The loan was listed on the Oslo Stock Exchange with the ticker NOR06 and the loan was issued against pledged collateral.

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 was capitalised initially and amortised over the term of the loan. The interest rate was NIBOR 3 months + a margin of 6.0%. Interests were paid in arrears quarterly. Remaining amortisation on 31 December 2012 was NOK 9.730 million. The loan was listed on the Oslo Stock Exchange with the ticker NOR07 and the loan was issued against pledged collateral.

NOR08 Senior unsecured bond
The bond loan was entered into in October 2012 with a face value of NOK 300 million. The borrowing cost was capitalised initially and amortised over the term of the loan. The interest rate was a fixed coupon rate set at 12,9%. Interests was paid in arrears quarterly. Remaining amortisation on 31 December 2012 was NOK 6.872 million. The loan was listed on the Oslo Stock Exchange with the ticker NOR08.

NOR09 Senior unsecured bond
On 13 February 2013 Noreco contemplated issue of an unsecured bond of NOK 300 million. The bond's maturity date was February 2016 and carried an interest of 10.5 percent. The funds were made available from 1 April 2013.

Reserve based lending facility Noreco Oil Denmark A/S ("RBL")
The reserve-based loan was recognised at amortised cost. The banks made a commitment to a maximum frame of USD 140 million at the end of 2012 and then a gradual reduction to USD 0 in January 2015 when the loan would expire. Available loan facility as of 31 December 2012 was USD 108.3 million and the loan drawn up as of 31 December 2012 was USD 99.0 million. Available loan facility was regulated quarterly and was based upon expected reserve base, costs and oil price. The loan had a floating rate of LIBOR + a margin between 2.50% p.a and 3.50 % p.a. The first due date for interest was 28 February 2013. The margin was dependent upon how much of the facility which was drawn up. The loan had financial covenants relating to liquidity ratio and debt ratio and was secured with mortgage in shares in the Group as well as major assets. The loan terms also included a requirement to hedge a part of future oil production for two years ahead.

The interest rate margin changed pending the use of the loan facility. The interest rate margin varied between 2.5 % and 3.5 %.

On 31 December 2012 the estimated downpayment was as follows: 2013 - USD 52.0 million, 2014 - USD 38.0 million and 2015 USD 9.0 million. Remaining amortisation was USD 3 million.

Exploration loan facility - Norwegain Energy Company ASA
The exploration loan was entered into in February 2008, with a facility amount of NOK 1 550 million. The borrower was Norwegian Energy Company ASA and the facility could be utilised untill 31 December 2012. The tax refund balance was pledged as security for the loan. The balance on 31 December 2012 was due in December 2013, after the tax refund was received. The loan carried a floating interest of NIBOR + a margin of 2.5% p.a. First due date for interests is 2. April 2014. A new exploration loan was entered into by Noreco Norway AS.

23.4 Covenants

Covenants relating to interest bearing debt outstanding on 31 December 2013
All the New Bonds shall be subject to the same covenants. The covenants are in line with what is considered customary in the Norwegian high yield bond market. A general liquidity requirement in the amount of NOK 100 million at Noreco group level apply, as well as incurrence based covenants on significant asset disposals and new financial indebtedness, which are only permitted if the Group gearing ratio (net interest-bearing debt to EBITDAX, with the X only relating to exploration activity on the Norwegian continental shelf) is less than 3.5 x.

Custumary events of default exist for the exploration loan, hereunder material adverse change, and in addition fail to claim refund that the borrower is entitled to under the Petroleum Tax Act relating to exploration costs financed under the agreement.

The Group is in compliance with the covenants on 31 December 2013.

Covenants relating to interest bearing debt outstanding at 31 December 2012
The bond loans had the following two financial covenants; The Group shall maintain an equity ratio of minimum 25 % and a gearing-ratio of less than 5.0. Equity ratio was defined as the book equity of the group divided with total assets.

During 2012 and 2013 the gearing ratio exceeded this threshold, but a waiver was agreed with the bondholders. However, the obtained waivers did not have a duration of at least 12 months from the balance sheet date.

In the statement of financial positions on 31 December 2012 and in one or more of the quarters in 2013 the long term portion of the bond loans NOR04, NOR06 and NOR07 were therefore classified as current liabilites as 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 waiver with 12 months duration from the balance sheet date.

23.5 Convertible bond loan

Liability component of convertible loan

(NOK million)	2013	2012
Book value as initial recognition (1)	204	349
Conversion	-	(222)
Repurchase of bonds	-	(46)
Interest expense	3	118
Paid/accrued interest	(1)	(63)
Amortisation of establishment costs	-	36
Repayment at maturity	-	(173)
Liability component 31 December	**206**	**-**

(1) Dilution if the convertible bonds is converted
Following the new share issue in December of NOK 430 million (Note 20) and the subsequent repair issue of NOK 100 million, a full conversion of the convertible bond will result in an issue of 1 223 million new shares. This new equity from the convertible bonds will then represent 17.8 percent of the share capital. If the interest is paid-in-kind instead of cash, a conversion of the entire convertible bond after five years will result in issue of 1 490 million shares. This new equity will then represent 20.9 percent of the issued share capital at that time. This information does not assume any other issue of new shares in the period.

The Group did not have any convertible bond loans outstanding on 31 December 2012.

23.6 Payment structure

Payment structure loans (NOK million):

Year	NOR06	NOR10	NOR11	NOR12	Exploration loan (1)	Total 2013	Total 2012
2013						-	1 862
2014	100	500			345	945	1 642
2015	100	500				600	230
2016	150	399				549	240
2017	250		100			350	-
2018 (2)			200	447		647	-
2019			445			445	-
Total	**600**	**1 399**	**745**	**447**	**345**	**3 536**	**3 974**

(1) The exploration loan will be repaid once the tax refund on exploration expenses has been received.
(2) In 2018 the repayment of the convertible bond is included with NOK 447 million which will be the principal amount of this bond if all interests are paid in kind.

Interest payments (NOK million):

Year	NOR06	NOR10	NOR11	NOR12	Exploration loan (3)	Total 2013	Total 2012
Interest rate	**6.50 %**	**6.00 %**	**6.75 %**	**4.00 %**	**4.19 %**		
2013						-	364
2014	39	84	50		14	188	222
2015	33	54	50		-	137	58
2016	26	24	50		-	100	43
2017	16	-	50		-	67	-
2018	-	-	44		-	44	
2019	-	-	30		-	30	-
Total	**114**	**162**	**275**	**-**	**14**	**565**	**687**

(3) Interest rate terms are NIBOR 3 months plus 2.5% margin. NIBOR 3 months of 1.69% has been used in the calculation. The interest amounts included interest for all debt as of 31 December 2013.

23.7 Assets pledged as security for interest bearing debt

Specification of assets pledged as securites

(NOK million)	2013	2012
Collateralised debt (net book value)		
Bond loans (current and non current part, ref. note 23.1)	2 275	1 804
Reserve based loan (ref. note 23.1)	-	532
Exploration loan (ref. note 23.1)	333	573
Total collateralised debt	**2 608**	**2 909**
Capitalised value in the consolidated accounts of assets pledged as securities		
License and capitalised exploration expenditures	743	527
Property, plant and equipment	3 087	3 984
Tax receivable	378	618
Cash at bank	-	196
Total capitalised value	**4 208**	**5 325**

Specification of assets pledged as securities per bond/loan:

(NOK million)	2013	2012
Bond loan NOR10 1st Lien (1)		
License and capitalised exploration expenditures	595	-
Property, plant and equipment	2 705	-
Total	**3 300**	**-**
Bond loan NOR06 (2)		
Property, plant and equipment	382	-
Total	**382**	**-**

Bond Loan NOR11 2nd Lien (3)

The bond holds a second ranking security as descibed in the footnote.

Exploration loan (4)		
License and capitalised exploration expenditures	148	27
Tax receivable	378	618
Total	**526**	**645**

(1) The Bond loan NOR10 1st lien is secured with pledge in licenses owned by Noreco Oil Denmark A/S (the company holds the title to a number of assets in Denmark, including the producing Nini, Lulita and Cecilie assets), licenses owned by Noreco Petroleum Denmark A/S (the company is a holder of licenses in Denmark, such as the Cecilie and Lulita fields) and licenses in Noreco Oil (UK) Ltd (the Huntington field on UK sector) and also the project agreements relating to these licenses. Further the bond is secured with pledge in the earnings accounts relating to Noreco Oil Denmark AS, Noreco Petroleum Denmark AS and Noreco Oil (UK) Ltd, Noreco Oil (UK) Ltd's goodwill and uncalled capital and the company's property, assets, rights and revenues (present and future). In addtion to guarantees, intra group loans held by the three above mentioned companies and the shares in Noreco Oil Denmark A/S, Noreco Oil (UK) Ltd and Noreco Petroleum Denmark A/S. Book value of the shares in Noreco Oil Denmark A/S is USD 197 million, Noreco Oil (UK) Ltd USD 25 million, and in Noreco Petroleum Denmark A/S USD 5 million.

(2) The bond loan NOR06 is secured with pledge in licenses owned by Noreco Norway AS (the company holds all of the Group's Norwegian licenses, including the Oselvar and Enoch producing assets), project proceeds relating to the Oselvar license, insurance proceeds directly deriving from any damage to equipment and/or property in respect of the Oselvar license and Norwegian law on-demand guarantees issued by Noreco Norway AS. Further intra group loans made by Noreco Norway AS, the Noreco Norway earnings account are pledged as security for the loan in addtion to the shares in Noreco Norway AS. The shares in Noreco Norway AS is held by Altinex ASA and has a book value of NOK 819 million at 31 December 2013. The loan has in addition second lien security in the same assets with substantially the same terms as the Bond loan NOR10.

(3) The bond loan NOR11 is also secured with second lien security in the same assets with substantially the same terms as the Bond loan NOR10.

(4) The exploration loan is secured with pledge in the tax refund balance related to Norwegian exploration activity and all Norwegian exploration licenses.

Bond loan NOR04 outstanding on 31 December 2012

The parent company's investment in Altinex ASA and Noreco Petroleum (UK) ltd was pledged as security for the NOR04 bond. The shares had a book value of NOK 2.8 billion as of 31 December 2012. The Danish holding company, Noreco Denmark A/S (prev. Geopard AS) had 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.

24 Trade payables and other payables

(NOK million	2013	2012
Trade payable*	58	29
Liabilities to operators relating to joint venture licenses*	190	186
Overlift of oil 1)*	16	45
Accrued interest	11	52
Employee bonus/salary accruals	33	33
Public duties payable*	8	8
Other current liabilities*	27	24
Total trade payable and other payables	**343**	**376**

* See note 19 for value disclosures

(1) Specification of overlift oil	boe	USD/boe	Value (NOK million)
Overlift oil	24 772	107.12	16
Overlift NGL	-	-	-
Total	**27 772**	**107.12**	**16**

Overlift and underlift of oil and NGL is presented net. For details of underlift, see note 16 Receivables.

Trade and other payables held in currency

(NOK million)	2013	2012
NOK	114	134
DKK	22	21
USD	122	102
GBP	84	119
Total	**343**	**376**

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 16 Trade Receivables and other current assets and note 17 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.

Ageing analysis of trade payables and other current liabilities

31 December 2013			Due				
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Trade payable	58	38	18	1	0	-	1
Liabilities to operators relating to joint venture licenses	190	190	-	-	-	-	-
Overlift of oil (1)	16	16	-	-	-	-	-
Accrued interest	11	11	-	-	-	-	-
Employee bonus/ salary accruals	33	33	-	-	-	-	-
Public duties payable	8	8	-	-	-	-	-
Other current liabilities	27	27	-	-	-	-	-
Total	**343**	**324**	**18**	**1**	**0**	**-**	**1**

Ageing analysis of trade payables and other current liabilities

31 December 2012			Due				
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Trade payable	29	26	0	-	-	-	1
Liabilities to operators relating to joint ven-ture licenses	186	186	-	-	-	-	-
Overlift of oil (1)	45	45	-	-	-	-	-
Accrued interest	52	52	-	-	-	-	-
Employee bonus/ salary accruals	33	33	-	-	-	-	-
Public duties payable	8	8	-	-	-	-	-
Other current liabilities	24	24	-	-	-	-	-
Total	**376**	**375**	**0**	**-**	**-**	**-**	**1**

25 Share-based compensation

The Group has an option program established 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 model is for instance 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.

Social security tax:
Social security tax is booked progressively at the reporting intervals if the share price is higher than the exercise price. There is no social security tax for the Danish subsidiaries.

There has been no accrual for social security tax in 2013 or 2012 as the share price is lower than the exercise price.

Outstanding share options and bonus shares	
Total share options and bonus shares outstanding as at 1 Janurary 2012	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 December 2012	**8 963 996**
Share options granted in 2013	8 297 299
Bonus shares granted in 2013	448 778
Share options forfeited in 2013	(4 675 126)
Bonus shares forfeited in 2013	(229 560)
Outstanding at 31 December 2013	**12 805 387**

Grants	**Exercise price**	**Outstanding share options and bonus shares at 31.12.2013**	**Average remaining Contractual term**	**Weighted average exercise price**
Granted bonus shares in 2013	0.00	387 167	1.17	-
Share options programme 2009	11.01	1 126 912	0.17	11.01
Share options programme 2010	17.00	630 596	1.17	17.00
Share options programme 2011	14.85	1 167 910	2.26	14.85
Share options programme 2012	8.04	2 806 129	3.19	8.04
Share options programme 2013	4.11	6 686 673	4.18	4.11
Total		**12 805 387**	**3.20**	**7.07**

Effect of outstanding options in financial statements:

(NOK million)	**2013**	**2012**
Personal expenses	13	14

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

	2013	**2012**
Share price at grant date (NOK)	3.90	8.04
Volatility	60.0 %	64.2 %
Expected life span options (year)	4	4
Risk free interest	1.55 %	1.8 %
Fair value at grant date (NOK)	**2.31**	**4.13**

26 Guarantees

Overview of issued guarantees on 31 December 2013
The parent company of the Group Norwegian Energy Company ASA (""Noreco"") has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited 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 Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S.

As a part of the transfer agreement signed 22 July 2011 for the sale of the Siri Field to DONG E&P A/S, Norwegian Energy Company ASA issued a parent company guarantee in favour of Dong guaranteeing as primary obligor (in Danish: som selvskyldnerkautionist) and not only as surety the fulfilment of any of the seller's obligations under the agreement. It is reasonable to believe that there will be no claims made against the guarantee although formally there is no limitation period which means that usual 3 year prescription period as applicable under Danish law will apply.

On 11 July 2011, the Norwegain Energy Company ASA issued a parent company guarantee in connection with establishment of a USD 3 million overdraft facility in Nordea. The debitor is Noreco Oil Denmark A/S

On 31 December 2012, Norwegain Energy Company ASA 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, Norwegain Energy Company ASA shall pay to the Norwegian Secretary of State on demand an amount equal to all such sums.

On 19 March 2013, the Norwegain Energy Company ASA issued a parent company guarantee in connection with establishment of a NOK 1,240 million exploration loan facility in Sparebank 1 - SR Bank. The debitor is Noreco Norway AS.

On 6 December 2013, several subsidiaries in the Noreco group entered into Co-debitor guarantees related to the refinancing of outstanding bonds at that time. These are unconditional and irrevocable Norwegian law on-demand guarantee from the Guarantor securing the Obligor's obligations when they have become due under the Bond Agreement and any other Finance Document, including interest, cost and expenses, with payment by the Guarantor to be made within 10 Business Days of any demand, such Guarantees to be qualified as required by Danish law with respect to any Danish Guarantor.

27 Interest in jointly controlled assets

Interest in jointly controlled assets are included in the accounts by the gross method (partly consolidation), based on the equity. The Group holds the following license equities on 31 December 2013:

License	Country	Field	Equity
PL006C	Norway		15.0 %
PL018DS	Norway		13.3 %
PL048D	Norway	Enoch*	21.8 %
PL274	Norway	Oselvar	15.0 %
PL274CS	Norway		15.0 %
PL360	Norway		15.0 %
PL414	Norway		20.0 %
PL414B	Norway		20.0 %
PL453S	Norway		25.0 %
PL484 (O)	Norway		30.0 %
PL490	Norway		20.0 %
PL492	Norway		20.0 %
PL519	Norway		20.0 %
PL591	Norway		40.0 %
PL591B	Norway		40.0 %
PL599	Norway		20.0 %
PL606	Norway		40.0 %
PL616	Norway		20.0 %
PL620	Norway		25.0 %
PL624	Norway		15.0 %
PL634	Norway		30.0 %
PL639	Norway		15.0 %
PL646	Norway		20.0 %
PL701 (O)	Norway		40.0 %
1/90	Denmark	Lulita	28.2 %
16/98	Denmark	Cecilie	61.0 %
4/95	Denmark	Nini	30.0 %
7/86	Denmark		56.4 %
9/06	Denmark		12.0 %
9/95	Denmark		20.1 %
P1114	United Kingdom	Huntington	20.0 %
P1666	United Kingdom		10.0 %
P1768 (O)	United Kingdom		54.0 %
P1889	United Kingdom		22.5 %
P1934 (O)	United Kingdom		100.0 %
P1989 (O)	United Kingdom		50.0 %
P2003	United Kingdom		50.0 %
P2009 (O)	United Kingdom		100.0 %
P2026	United Kingdom		50.0 %
P2032 (O)	United Kingdom		15.0 %

(O) = A Group company is the operator

*The Enoch field located in the license PL048D is a separate joint venture in which Noreco participates with 4.36 percent equity interest

In connection with the granting of new licenses 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.

28 Contingencies and commitments

Contingent assets
Zidane contingent payment
As part of the disposal of PL435 (the Zidane discovery), Noreco is entiteled 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 payment is not recognised in the accounts on 31 December 2013.

Insurance payments - Loss of production income (LOPI) etc.
The Group has several insurance claims related to production shut-ins of the fields Siri, Oselvar and Enoch which are currently being evaluated by the insurance companies. Except for certain parts of the Siri claim which is not considered a contingent asset, these items are not recognised in the accounts.

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 359 million (USD 59 million) is recognised as a current receivable on 31 December 2013. This amount relates to costs incurred to prevent further damage, and loss of production income in 2009/2010. Based on technical documentation containing third party evaluations and the insurance agreements, the Company remains firm that the booked claim is covered and will be settled during the next twelve months. Thus the receivable is classified as a current receivable. The USD amount is unchanged from 31 December 2012. Noreco has withdrawn the standstill agreement with the insurance companies and has invited to negotiations regarding a settlement. Negotiations are still ongoing, but have so far not led to a satisfactory solution for the case. As such Noreco filed the writ to the Danish courts on 14 February 2014. Negotiations continue in parallel with the legal process. 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.

Contingent liabilities
Huntington startup OPEX
The operator of the Huntington field has still not reached a final agreement with Teekay, the owner of the FPSO, regarding some costs related to the startup phase of the field, which Teekay are claiming. The dispute is mainly related to charter fees and certain operational costs for the period since commencement of production in April 2013 until August 2013. Both Noreco and the operator have not recognised a provision for these un-concluded costs which amounts to maximum NOK 46 million (net Noreco share). Both parties are of the opinion that these costs should not be paid in accordance with the current agreements .

Brage sale and abandonment guarantee
The Group sold its participating interest (12.2575 percent) in the Brage Unit to Core Energy AS in 2011, causing a potential statutory liability with respect to Core Energy AS' share of the decommissioning cost related to the Brage installations, wells and other infrastructure which existed at the completion date of that license sale. The liability materialises if Core Energy AS, as the primary obligor, fails to settle its liability for such decommissioning costs. The Noreco Group could claim recourse from Core Energy AS.

Apart from the issues discussed above, 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.

Other commitments
At year end 2013 the Noreco group had the following commitments relating to exploration and production wells for the year 2014-2016:

(NOK million)	Number of wells	Amount
Commitments exploration wells		
Commitments exploration wells, Norwegian Continental Shelf	2	267
Commitments exploration wells, UK Continental Shelf	1	28
Commitments exploration wells, Danish Continental Shelf	1	92
Total commitments exploration wells	**4**	**387**
Commitments production wells		
Commitments production wells, Danish Continental Shelf	1	75
Total commitments production wells	**1**	**75**
Total commitments	**5**	**462**

The investment in producing wells is related to the drilling of an in-fill well on license 4/95 in Denmark. See further information regarding subseqent events in note 32.

At year end Noreco did not have any well commitments for 2017 and beyond.

When purchasing a share of a license, the purchase price may consist of an obligation to carry certain of seller's costs in respect of seller's retained license share ("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 2013, the company had entered six such agreements (2012: four such agreements). All these agreements are related to the exploration licenses in UK.

29 Operating leases

Operating leases
(NOK million)

Annual lease costs related to lease agreements accounted for as operating leases	**2013**	**2012**
Office	15	13
Other (1)	43	9

Future minimum lease payments under non-cancellable lease agreements	**2013**	**2012**
2013	-	94
2014	107	103
2015	96	88
2016	86	82
2017	83	80
>2017	23	79
Total	**394**	**526**

(1) "Other" is mainly relating to operational assets associated with the Huntington license. The FPSO (floating production unit) Voyager Spirit is contracted to the Huntington field in which Noreco has a share through its subsidiary Noreco Oil UK Ltd. The leasing contract is valid 5 years from 2013 (with options for extension).

30 Related party transactions

The Noreco Group did not have any transactions with any related parties during 2013 or 2012. Director's fee paid to shareholders and remuneration to management is descibed in Note 8.

31 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. 1/2013. The report is included as a separate section in the annual report, see the section on annual statement of reserves.

32 Subsequent events

On 21 January 2014, the repair share issue related to the refinancing in the fourth quarter 2013 was paid out to the Company. The share issue was oversubscribed and new share capital amounts to NOK 100 million. 1 000 000 000 new shares were issued, and the total shares issued for the Company after this was 5 656 094 082.

On 4 February 2014, the operator of the Nini license in Denmark informed Noreco that the work related to the new production well NB5 will be postponed, and will not be drilled in the first half of 2014 as planned. It is expected that the well will be drilled in 2015. This information changes the projected cash flows related to the Nini field, and the impairment test is adjusted for this. The reversal of previously recognised write-downs were decreased by NOK 18 million related to this new information.

On 14 February 2014, Noreco issued 2 391 002 new shares at a price of NOK 0.14403 per share as part of its employee incentive scheme. Following registration of the share capital increase, the total number of shares issued in Noreco are 5 658 485 084, each with a nominal value of NOK 0.10.

On 19 February 2014, Noreco signed an agreement with Dong & RWE where Noreco agreed to transfer DKK 445 million to an escrow account that is pledged in favor of DONG and RWE. The escrow account will be the security for abandonment obligation related to the Nini and Cecilie fields.

On 19 February 2014, Noreco became official participant in five new licenses on Norwegian continental shelf, which was offered to the Company in the license round for 2013. The licenses PL761 and PL762 were awarded to Noreco as the operator, while Noreco will be a partner in the licenses PL744S, PL748 and PL755.

STATUTORY ACCOUNTS

NORWEGIAN ENERGY COMPANY ASA
(PARENT COMPANY)

2013

CONTENT

STATUTORY ACCOUNTS FOR NORWEGIAN ENERGY COMPANY ASA

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INCOME STATEMENT

for the year ended 31 December

(All figures in NOK million)	Note	2013	2012
Revenue	15	-	-
Total revenues		**-**	**-**
Exploration and evaluation expenses	13	-	(825)
Personell expenses	10,11,15	(20)	(100)
Other operating expenses	14	(13)	(78)
Total operating expenses		**(33)**	**(1 003)**
Net operating result		**(33)**	**(1 003)**
Income from subsidiaries	2	2	10
Interest received from group companies		72	72
Interest income		23	19
Other financial income		1	27
Write-down of financial assets	2	(444)	(859)
Interest expenses to group companies		(14)	(47)
Interest expenses		(432)	(408)
Other financial expense		(20)	(46)
Net financial items		**(811)**	**(1 233)**
Result before tax		**(844)**	**(2 236)**
Income tax benefit/(expense)	12	-	871
Net result for the year		**(844)**	**(1 364)**
Appropriation:			
Allocated to/(from) other equity	8	(527)	184
Covered with other paid-in capital	8	(318)	(14)
Covered by share premium	8	-	(1 534)
Total appropriation		**(844)**	**(1 364)**

BALANCE SHEET

on 31 December

(All figures in NOK million)	Note	2013	2012
ASSETS			
Non-current assets			
Financial non-current assets			
Investments in subsidiaries	2	3 039	3 036
Loan to group companies	7,15	867	972
Restricted cash	3	500	-
Total financial non-current assets		**4 406**	**4 008**
Total non-current assets		**4 406**	**4 008**
Current assets			
Receivables			
Accounts receivable		-	10
Tax refund	12	-	1 339
Receivables from group companies	15	-	10
Other current receivables		2	1
Total receivables		**2**	**1 360**
Financial current assets			
Restricted cash	3	70	9
Bank deposits, cash and cash equivalents		329	365
Total financial current assets		**399**	**374**
Total current assets		**401**	**1 734**
Total assets		**4 807**	**5 741**

BALANCE SHEET

as on 31 December

(All figures in NOK million)	Note	2013	2012
EQUITY AND LIABILITIES			
Equity			
Paid in equity			
Share capital	8,9	466	1 097
Share premium fund	8	1 007	1 018
Other paid-in capital	8	764	-
Total paid in equity		**2 237**	**2 115**
Retained earnings			
Other equity	8	-	-
Total retained earnings		**-**	**-**
Total equity		**2 237**	**2 115**
Liabilities			
Provisions			
Deferred tax	12	24	-
Total provisions		**24**	**-**

(All figures in NOK million)	Note	2013	2012
Other non-current liabilities			
Bond loans	4	1 939	1 804
Other interest bearing debt to group companies	15	0	157
Total other non-current liabilities		**1 939**	**1 961**
Current liabilities			
Bond loans	4	541	976
Other interest bearing debt	4	0	573
Trade payables		42	8
Public duties payable		0	7
Debt to group companies	15	7	0
Other current liabilities	5	17	102
Total current liabilities		**608**	**1 665**
Total liabilities		**2 571**	**3 627**
Total equity and liabilities		**4 807**	**5 741**

Stavanger 25 March 2014
(Translation made for information purposes only.)

Morten Garman
Chairman

Hilde Drønen
Board member

Marika Svärdström
Board member

Erik Henriksen
Board member

David Gair
Board member

Hilde Alexandersen
Employee Representative

Bård Arve Lærum
Employee Representative

Svein Arild Killingland
CEO

CASH FLOW STATEMENT

for the year ended 31 December

(All figures in NOK million)	Note	2013	2012
Net result for the year		(844)	(1 364)
Income tax benefit/(expense)		-	(871)
Adjustments to reconcile result before tax to net cash flows from operating activities:			
Tax paid		(11)	-
Tax refunded	12	1 351	516
Depreciation and writedowns	2	444	859
Write-downs dry wells		-	649
Share-based payments	10	-	10
Loss related to discontinued cash flow hedge		4	-
Unrealised loss/(gain) related to financial instruments		5	-
Loss on repurchase of bonds		3	-
Amortisation of borrowing expenses		62	34
Paid/received interests - net		366	361
Received interests		28	19
Change in working capital			
Changes in accounts receivable		10	74
Changes in trade payables		(9)	(10)
Changes in other current balance sheet items		(84)	35
Net cash flow from operations		**1 325**	**309**

(All figures in NOK million)	Note	2013	2012
Cash flows from investment activities			
Purchase of intangible assets		-	(506)
Purchase of shares in subsidiaries		(0)	(93)
Establishment of security account for abandonment obligation in Denmark	3	(570)	-
Net cash flow used in investing activities		**(570)**	**(599)**
Cash flows from financing activities			
Issue of share capital	8	439	407
Paid issue cost		(4)	(18)
Proceeds from issue of long term debt	4	300	500
Repayment of bonds		-	(649)
Proceeds from utilisation of exploration facility		-	597
Repayment of exploration facility	4	(573)	(454)
Change in loans from group companies		(151)	312
Changes in loans to group companies		(318)	(95)
Repurchase own bonds		(50)	-
Interest paid		(394)	(380)
Paid borrowing cost		(40)	(58)
Net cash flow from (used in) financing activities		**(791)**	**162**
Net change in cash and cash equivalents		**(36)**	**(128)**
Cash and cash equivalents at start of the year		364	492
Cash and cash equivalents at end of the year		**329**	**364**

1 Accounting principles

The annual accounts for Norwegian Energy Company ASA ("Noreco" or "the company") have been prepared in compliance with the Norwegian Accounting Act ("accounting act") and accounting principles generally accepted in Norway ("NGAAP") as of 31 December 2013.

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 judgment. Areas, which to a great extent contain such judgments, 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 for liabilities. First year's installment on long term liabilities and long term receivables are classified as current liabilities and assets.

For interest bearing debt where the company is required to be in compliance with financial covenants, the loans are classified as current liabilities if Noreco is in breach with the covenants to that extent that the loan would be payable on the demand of the creditor. If a waiver is agreed with the creditor prior to approval of these financial statements, the classification is carried forward in accordance with the payment schedule of the initial borrowing agreement.

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 profit after the aquisition 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.

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 of disposal and the recoverable amount.

Previous impairment charges 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 debt 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
Noreco enters into interest rate swap agreements to secure a fixed interest rate on the company's loans with floating interest rate when considered necessary. The accounting rules for cash flow hedging are applied for these instruments. The derivatives are carried at fair value at the time of initial recognition, and recognised at fair value on each following reporting dates. 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.

When a hedging instrument expires, or is sold, or no longer meets the criteria for hedge accounting, any gain or loss accumulated in equity at that time remains within 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 operating expenses'.

As of 31 December 2013 the major part of the company's debt have fixed interests rates. See note 6 for details.

Recognised unrealised 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.

Compound financial instruments issued by the company 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 as 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. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Gains or losses arising from repurchases of the company's bond debt are recognized as financial income or financial expense. The gain or loss is calculated as the difference between the fair value paid at the time of the repurchase and the amortised cost.

The Company's bond debt was restructured in December 2013. See note 4.2 for description of the applied accounting princples.

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

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

Taxes
The tax in the income statement includes payable taxes for the period, refundable tax 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, recorded as a reduction of cost price or taken directly to equity, are recorded 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.

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 Investment in subsidiaries

Investments in subsidiaries are booked according to the cost method.

(NOK million) Subsidiaries	Location	Ownership/ voting right	Equity 31.12.13	Net income 2013	Book value
Altinex ASA	Stavanger	100 %	1 210	(14)	2 410
Norwegian Energy Company UK Ltd	Great Britain	100 %	236	(17)	285
Noreco Petroleum UK Ltd	Great Britain	100 %	374	27	344
Book value 31 December 2013					**3 039**

The investment in Altinex ASA has been written down by NOK 444 million in 2013 (NOK 859 million in 2012). The write-down relates to impairment of assets controlled by Altinex ASA. The impairment relates to reduced reserves for producing fields as a result of production in 2013 and revised estimates on future production, not satisfactory progress on previously capitalised discoveries, relinquished licenses and change in currency rates. The write-downs 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 2 million as group contribution from Altinex ASA for the financial year 2013.

3 Restricted bank deposits

(NOK million)	2013	2012
Deposit office rental	-	2
Withheld employee taxes	-	7
Restricted cash pledged as security for abandonment obligation in Denmark (1)	500	-
Restricted cash which can only be used for collateral for abandonment obligation or repayments to bondholders	70	-
Total restricted bank deposits	**570**	**9**

(1) Norwegian Energy Company ASA maintains a Debt Service Reserve Account which will be used as security for covering the abandonment obligation in Denmark related to the Cecilie and Nini field (DKK 500 million). In February 2014 an agreement was reached with Dong & RWE where Noreco agreed to transfer DKK 445 million to an escrow account that is pledged in favor of DONG and RWE.

4 Borrowings

4.1 Summary of borrowings

(NOK million)	2013	2012
Non-current debt		
Bond loan NOR04	-	1 222
Bond loan NOR06	402	267
Bond loan NOR07	-	315
Bond loan NOR10 1st Lien	829	-
Bond Loan NOR11 2nd Lien	502	-
Bond Loan NOR12 Convertible	206	-
Total	**1 939**	**1 804**
Current debt		
Bond loan NOR05	-	682
Bond loan NOR06	80	
Bond loan NOR08	-	293
Bond loan NOR10 1st Lien	461	-
Exploration loan	-	573
Total	**541**	**1 548**
Total borrowings	**2 481**	**3 352**

4.2 The Refinancing

Refinancing of debt and calculation of impact from refinancing
The Company's bond debt was restructured in December 2013. Due to substantial modification of terms the refinancing has been accounted for as a partly remission of debt. The old bonds were derecognised in December 2013 and the new bond structure was recognised as new borrowings at fair value at the time of issue, in a accordance with the transaction principle. The convertible bond includes both a liability component and an equity component. The value of the liability component has been determined using a comparable loan with no conversion features. The equity component is the residual between the fair value of the bond, and the calculated value of the liability component.

The refinancing process was completed as a consequence of the company's financial distress and lack of ability to pay current liabilities. Impact relating to the difference between the book value of the old bonds at the date of derecognition (9 December 2013), and the fair value of the new loans, is for accounting purposes considered remission of debt. In accordance with NGAAP guidance, the impact from the refinancing should therefore be recognised directly through equity. Any tax impacts resulting from the refinancing is also recognised directly in equity.

Transaction costs of NOK 47 million incurred in the process is treated as costs relating to settlement of the old debt and is included in the calculation.

Specification of the equity impact due to the refinancing

(NOK million)	2013
Book value of old bonds on the time of derecognition:	3 058
Fair value of new bonds at time of issue	2 489
Difference	569
Transaction cost	(47)
Equity component of convertible bond	16
Tax impact	22
Impact from refinancing (net of tax)	**517**

See note 23.2 to the Group Annual Report for further details relating to the refinancing.

4.3 Covenants

Covenants relating to interest bearing debt outstanding on 31 December 2013
All the New Bonds shall be subject to the same covenants. The covenants are in line with what is considered customary in the Norwegian high yield bond market. A general liquidity requirement in the amount of NOK 100 million at Noreco group level apply, as well as incurrence based covenants on significant asset disposals and new financial indebtedness, which are only permitted if the Noreco group gearing ratio (net interest-bearing debt to EBITDAX, with the X only relating to exploration activity on the Norwegian continental shelf) is less than 3.5 x. The Group is in compliance with the covenants on 31 December 2013.

Covenants relating to interest bearing debt outstanding on 31 December 2012
The bond loans had the following two financial covenants: The group shall maintain an equity ratio of minimum 25 percent. And the group shall maintain a gearing-ratio of less than 5.0. Equity ratio was defined as the book equity of the group divided with total assets.

During 2012 and 2013 the gearing ratio exceeded this threshold, and a waiver was agreed with the bondholders. N–GAAP does not contain the same rules which required the reclassification of NOR04, NOR06 and NOR07 as short-term liabilities in the consolidated financial statements in accordance with IFRS. See note 23 to the Group Annual Report for additional information.

4.4 Payment structure

Repayment structure - all interest bearing debt on 31 December

Year (NOK million)	NOR06	NOR10	NOR11	NOR12	2013	2012
2013					-	1 573
2014	100	500			600	1 430
2015	100	500			600	180
2016	150	399			549	240
2017	250		100		350	-
2018			200	447	647	-
2019			445		445	-
Total	**600**	**1 399**	**745**	**447**	**3 191**	**3 423**

Repayment amounts are stated at their principal amount. In 2018 the repayment of the convertible bond is included with NOK 447 million which will be the principal amount of this bond if all interests are paid in kind.

Average interest - external financing

(NOK million)	2013	2012
Interest cost	(432)	(408)
Average interest bearing debt	2 916	3 367
Average interest for all interest bearing debt	**14.82 %**	**12.11 %**

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

The interest rates for the bond loans are fixed over the term of the bond.

Notes

4.5 Assets pledged as security for interest bearing debt

Specification of assets pledged as securities as of 31 December

(NOK million)	2013	2012
Collateralised debt (book value)		
Bond loans (1)	2 275	1 804
Exploration loan	-	573
Total collateralised debt	**2 275**	**2 376**
Capitalised value in the consolidated accounts of assets pledged as securities		
Shares in subsidiaries (1)	2 695	2 841
Tax receivable	-	618
Total capitalised value	**2 695**	**3 459**

(1) The Bond loan NOR10 1st lien is secured with pledge in licenses owned by Noreco Oil Denmark A/S (the company holds the title to a number of assets in Denmark, including the producing Nini, Nini East, Lulita and Cecilie assets), licenses owned by Noreco Petroleum Denmark A/S (the company is a holder of licenses in Denmark, such as the Cecilie and Lulita fields and the Amalie discovery) and licenses in Noreco Oil (UK) Ltd (the Huntington field on UK sector) and also the project agreements relating to these licenses. Further the bond is secured with pledge in the earnings accounts relating to Noreco Oil Denmark AS, Noreco Petroleum Denmark AS and Noreco Oil (UK) Ltd, Noreco Oil (UK) Ltd's goodwill and uncalled capital and the company's property, assets, rights and revenues (present and future). In addition to guarantees, intra group loans held by the three above mentioned companies and the shares in Noreco Oil Denmark A/S, Noreco Oil (UK) Ltd and Noreco Petroleum Denmark A/S. Book value of the shares in Noreco Oil Denmark A/S is USD 197 million, Noreco Oil (UK) Ltd USD 25 million, and in Noreco Petroleum Denmark A/S USD 5 million.

The bond loan NOR06 is secured with pledge in licenses owned by Noreco Norway AS (the company holds all of the Group's Norwegian licenses, including the Oselvar and Enoch producing assets), project proceeds relating to the Oselvar license, insurance proceeds directly deriving from any damage to equipment and/or property in respect of the Oselvar license and Norwegian law on-demand guarantees issued by Noreco Norway AS. Further intra group loans made by Noreco Norway AS, the Noreco Norway earnings account are pledged as security for the loan in addtion to the shares in Noreco Norway AS. The shares in Noreco Norway AS is held by Altinex ASA and has a book value of NOK 819 million at 31 December 2013. The loan has in addition second lien security in the same assets with substantially the same terms as the Bond loan NOR10.

The bond loan NOR11 is also secured with second lien security in the same assets with substantially the same terms as the Bond loan NOR10.

Bond loan NOR04 outstanding on 31 December 2012

The parent company's investments 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 on 31 December 2012. The Danish holding company, Noreco Denmark A/S (prev. Geopard AS) has 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 on 31 December 2012.

See Note 23 to the Group Annual Report for additional details on the outstanding loans.

5 Current liabilities

(NOK million)	2013	2012
Liabilities to operators relating to joint venture licenses	-	12
Derivatives (ref. note 6)	4	10
Accrued interest	10	47
Outstanding salaries/bonuses	1	30
Other current liabilities	2	4
Total other current liabilities	**17**	**102**

6 Derivatives

In 2012 the Company had entered into interest rate swap agreements to secure a fixed interest for most of the company'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 within equity. Ineffectiveness is recognised through ordinary profit or loss.

Change in fair value of the hedging instruments which is recognised through equity during 2013 amount to NOK 5 million. The hedge accounting for the interest rate swaps agreements ceased in 2013 as the underlying debt were refinanced. As a consequence, all impacts in equity relating to hedge accounting were reclassified from equity to other operating expenses in the income statements. A total amount of NOK 4 million was reclassified (ref. note 8). The remaining interest swap agreement is carried at fair value thourgh ordinary profit and loss.

As of 31 December 2013 the Company holds the following interest rate swap agreements

Derivatives held for trading (NOK million)	Notional principal	Receive	Pay	Maturity	Fair value 31.12.13
NOR07	325 NOK (1)	3M NIBOR	2.58 %	27.04.16	(4)
Total book value					**(4)**

As of 31 December 2012 the Company held the following interest rate swap agreements

Derivatives held for trading (NOK million)	Notional principal	Receive	Pay	Maturity	Fair value 31.12.12
NOR07	700 NOK	3M NIBOR	2.53 %	06.12.13	(5)
NOR07	325 NOK (1)	3M NIBOR	2.58 %	27.04.16	(5)
Total book value					**(10)**

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

Change in fair value of the hedging instruments not recognised through profit or loss amounts to a loss of NOK 10 million on 31 December 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.

7 Guarantees

Overview of issued guarantees on 31 December 2013

The parent company of the Group Norwegian Energy Company ASA has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited 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, Norwegian Energy Company ASA issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S.

As a part of the transfer agreement signed 22 July 2011 for the sale of the Siri Field to DONG E&P A/S Norwegian Energy Company ASA issued a parent company guarantee in favour of Dong guaranteeing as primary obligor (in Danish: som selvskyldnerkautionist) and not only as surety the fulfilment of any of the seller's obligations under the agreement. It is reasonable to believe that there will be no claims made against the guarantee although formally there is no limitation period which means that usual 3 year prescription period as applicable under Danish law will apply.

On 11 July 2011 the Norwegian Energy Company ASA issued a parent company guarantee in connection with establishment of a USD 3 million overdraft facility in Nordea. The debitor is Noreco Oil Denmark A/S

On 31 December 2012, Norwegian Energy Company ASA 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.

On 19 March 2013 the Norwegian Energy Company ASA issued a parent company guarantee in connection with establishment of a NOK 1 240 million exploration loan facility in SR-Bank. The debitor is Noreco Norway AS.

See also note 16 for information regarding guarantees issued in 2014.

8 Shareholders' equity

Changes in equity (NOK million)	Share capital	Share premium reserve	Other paid-in equity	Other equity	Total
Equity 31 December 2012	**1 097**	**1 018**	**-**	**-**	**2 115**
Proceeds from share issued	437	2			439
Share issue cost	-	(13)			(13)
Capital reduction (1)	(1 068)		1 068		-
Impact from refinancing (net of tax) (ref note 4.2)			-	517	517
Options cost			13		13
Change in fair value of hedging instruments				5	5
Discontinued cash flow hedge				4	4
Appropriation of loss for the year			(318)	(527)	(844)
Equity 31 December 2013	**466**	**1 007**	**764**	**-**	**2 237**

(1) The capital reduction was approved by an extraordinary general meeting 15 November 2013 and was finally executed at 31 December 2013 when the notice period for the creditors were expired. The capital decrease was registered at the Company register at 3 January 2014.

9 Share capital and shareholder information

	2013	2012
Ordinary shares	4 656 094 082	353 831 111
Total shares	**4 656 094 082**	**353 831 111**
Par value (NOK 1)	0.10	3.10

The Group does not own any of its parent company shares. All shares have equal rights.

Changes in number of shares and share capital:

(NOK million)	No. of shares	Share Capital
Share capital on 1 January 2012	243 842 914	756
Share issue November 2012	108 108 108	335
Repair share issue November 2012	1 038 010	3
Share issue employees	842 079	3
Share capital on 31 December 2012	353 831 111	1 097

(NOK million)	No. of shares	Share Capital
Share capital on 1 January 2013	353 831 111	1 097
Share issue employees on 14 January 2013	1 814 206	6
Share issue employees on 18 March 2013	448 778	1
Share issue on 4 December 2013	4 299 999 987	430
Capital reduction on 31 December 2013	-	(1 068)
Share capital on 31 December 2013	4 656 094 082	466

Changes in 2013
On 14 January 2014 Noreco issued 1 814 206 employee incentive scheme shares.
On 18 March 2013 Noreco issued 448 778 new shares to its employees in connection with bonus reward for 2012.
On 4 December 2013 Noreco issued 138 709 677 A-shares at par value NOK 3.10. The A-shares was automatically converted to ordinary shares simultaneously with the completion of the share capital reduction through a reduction of nominal value from NOK 3.10 to NOK 0.10, through a share split in which each of the A-shares were split and converted to 31 ordinary shares of totally 4 299 999 987 ordinary shares.
The share capital reduction was formally approved on 31 December 2013 after the creditor period resulting in a reduction of share capital of NOK 1 068 million.

Changes in 2014
On 21 January 2014 the repair share issue related to the refinancing in the fourth quarter 2013 was paid out to the Company.
On 14 February 2014 Noreco issued new shares as part of its employee incentive scheme. Following registration of the share capital increase the total number of shares issued in Noreco are 5 658 485 084, each with a nominal value of NOK 0.10. See note 16 for further information.

Existing mandates
In 2013 the Board of Directors was granted a mandate by the General Meeting to issue up to 7 000 000 shares to the employees. The mandate expires on 1 June 2014. The mandate has been utilised once, when 2 391 002 shares were issued in February 2014 as part of the bonus scheme. The remaining mandate is 4 608 998 shares.

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

Overview of shareholders at 12 March 2014:

Name	Shareholding	Ownership share
SABARO INVESTMENTS	1 536 354 828	27.15 %
IKM INDUSTRI-INVEST	1 029 470 893	18.19 %
MP PENSJON PK	204 516 300	3.61 %
OM Holding AS	159 615 900	2.82 %
ALTO HOLDING AS	90 000 000	1.59 %
CITIBANK, N.A. S/A IF SKADEFORSAKRI	56 608 700	1.00 %
VERDIPAPIRFONDET DNB	50 748 746	0.90 %
AWILCO INVEST AS	49 999 900	0.88 %
BD TRADING AS	41 850 000	0.74 %
CARE HOLDING AS	41 850 000	0.74 %
JFH FINANS AS	40 000 000	0.71 %
Goldman Sachs	36 998 500	0.65 %
IMPORTER AS	34 000 000	0.60 %
NORDNET PENSJONSFORS	30 396 101	0.54 %
LYSE ENERGI AS	27 701 514	0.49 %
NORDNET BANK AB	26 568 509	0.47 %
ANKO INVEST AS	26 183 000	0.46 %
HAMNINGBERG HOLDING	26 000 000	0.46 %
MORGAN STANLEY & CO	21 488 755	0.38 %
PEDERSEN ATLE SANDVIK	20 682 852	0.37 %
Total	**3 551 034 498**	**62.76 %**
Other owners (ownership <0.37 %)	**2 107 450 586**	**37.24 %**
Total number of shares	**5 658 485 084**	**100 %**

10 Share-based compensation

The Group has an option programme established in January 2008. The principles in this programme were approved by the extraordinary general meeting in January 2008. The purpose of the programme is to establish a long-term incentive programme for employees.

Share options are granted annually by the Board. The options will be fully acquired after three years and expire after five years. The options will according to plan be settled when the shares are issued.

In addition, the Group has an agreement where employees have an option to purchase shares equivalent to up to 50 percent of their bonus at the payment date. Employees who retain these shares for two years, and are still employed in Noreco by the expiration of the two-year period, will be granted an option to receive additional shares at a one-to-one basis.

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 for instance 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.

Outstanding share options and bonus shares	
Total share options and bonus shares outstanding on 1 January 2012	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 on 31 December 2012	**8 963 996**
Share options granted in 2013	8 297 299
Bonus shares granted in 2013	448 778
Share options forfeited in 2013	(4 675 126)
Bonus shares forfeited in 2013	(229 560)
Outstanding on 31 December 2013	**12 805 387**

By the end of 2013 and 2012 no employees with share options were employed in Norwegian Energy Company ASA.

Grants	**Exercise price**	**Outstanding share options and bonus shares at 31.12.13**	**Average remaining Contractual term**	**Weighted average exercise price**
Granted bonus shares in 2013	0.00	387 167	1.17	-
Share options programme 2008	33.00	-	-	-
Share options programme 2009	11.01	1 126 912	0.17	11.01
Share options programme 2010	17.00	630 596	1.17	17.00
Share options programme 2011	14.85	1 167 910	2.26	14.85
Share options programme 2012	8.04	2 806 129	3.19	8.04
Share options programme 2013	4.11	6 686 673	4.18	4.11
Total		**12 805 387**	**3.20**	**7.07**

Effect of outstanding options in financial statements:

(NOK million)	**2013**	**2012**
Personal expenses	0	10

As there are no employees in the Company and all employees in the plan are employeed in subsidiaries of the Company, options costs related to the employees in the plan are allocated to the company where they are employeed. As a consequence, there are no share based payment expenses in the income statement for 2013. In 2012 the expense amounted to NOK 10 million in the parent company (see note 15 for details on sale of business). In the annual report for Norwegian Energy Company ASA, the cost is debited investments in shares and credited other paid-in equity. The total equity effect of the share options programme was NOK 13.1 million for 2013 against NOK 13.3 million in 2012.

Social security tax

Social security tax is booked progressively at the reporting intervals if the share price is higher than the exercise price. The social security tax is recorded together with the expense in the company where the employees are employeed.

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

(NOK million)	**2013**	**2012**
Share price at grant date (NOK)	3.90	8,04
Volatility	60.0 %	64.2 %
Expected life span options (year)	4	4
Risk free interest	1.55 %	1.8 %
Fair value at grant date (NOK)	2.31	4.13

11 Payroll expenses, number of employees, remunerations, etc

Payroll expenses

(NOK million)	2013	2012
Salaries	(1)	(107)
Social security tax	(0)	(16)
Pensions costs	-	(14)
Costs relating to share-based payments	-	(10)
Salaries from other group companies	(19)	22
Other personell expenses	(0)	(2)
Manhours sold to own operated licenses	-	27
Total	**(20)**	**(100)**

Average number of man-years	**0**	**61**

See note 8 in the Group Annual Report for further information on compensation to key management and the board of directors etc.

12 Tax

Income tax

(NOK million)	2013	2012
Tax refundable	-	1 350
Changes in deferred tax	-	51
Changes in deferred tax benefit	-	(525)
Changes in deferred tax benefit - not recognised	-	-
Changes regarding previuos years	-	(4)
Effect of change in tax rate	-	-
Income tax expense (benefit)	**-**	**871**

The company does not have any income tax relating to the ordinary activity in 2013. Impacts from the refinancing has been recognised in equity, net of any related tax effects. See note 4.2 for additional information.

Basis for tax refund:

(NOK million)	2013	2012
Result before tax	-	2 236
Financial items	-	(379)
Permanent differences	-	(850)
Changes in temporary differences (exclusing financial items)	-	(154)
Onshore expenses	-	(24)
Non exploration expenses - Offshore	-	(38)
Basis for refund - 78 %	-	792
Tax refund	**-**	**618**

Discontinuation of E&P activity:

(NOK million)	2013	2012
Loss carry forward - 28 % offshore	-	2 408
Loss carry forward - 50 % offshore	-	94
Refund related to discontinuing E&P activity	**-**	**721**

Total tax refund	**-**	**1 339**

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 thereby became 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, it has claimed payment from the Norwegian government for the tax value of its uncovered losses pursuant to Norwegian Petroleum Taxation Act section 3(c)(4). Tax refund for 2012 of NOK 1 351 million was received in December 2013.

Reconsiliation of nominal to actual tax rate:

(NOK million)	2013	2012
Result before tax	(844)	(2 236)
Tax portion of income (loss) before tax - 28 %	(236)	559
Tax portion of income (loss) before tax - 50 %	-	1 118
Sum calculated tax expense	(236)	1 677
Tax free portion from sale of non-current assets / transactions before tax	-	-
Effect of financial items	-	(197)
Permanent differences	121	(633)
Changes in deferred tax benefit - not previously recognised	118	-
Other items	(3)	25
Income tax benefit	**(0)**	**871**

Deferred tax and deferred tax assets:

(NOK million)	2013	2012
Net operating loss deductible	530	91
Fixed assets	-	-
Curren assets	4	-
Liabilities	(622)	(61)
Basis of deferred tax / deferred tax asset	(88)	30
Net deferred tax / (deferred tax asset) (2013: 27%, 2012: 28%)	24	(8)
Unrecognised deferred tax asset		8
Deferrd tax / (deferred tax asset) recognised	24	-
Recognised deferred tax asset	-	-
Recognised deferred tax asset	24	-

Notes

13 Exploration expenses

(NOK million)	2013	2012
Acquisition of seismic data, analysis and general G&G costs	-	(102)
Exploration wells capitalised in previous years	-	(139)
Dry exploration wells this period	-	(510)
Other exploration and evaluation costs	-	(74)
Total exploration and evaluation expenses	**-**	**(825)**

14 Other operating expenses and audit fees

Specification of other operating expenses

(NOK million)	2013	2012
Lease expenses	-	(12)
IT expenses	0	(22)
Travel expenses	(0)	(4)
General and administrative costs	(0)	(4)
Consultant fees	(7)	(44)
Other operating expenses	(2)	(3)
Other operating expenses charged to own operated licenses	-	12
Loss on discontinued hedge	(4)	-
Loss on sale of assets	-	(1)
Total other operating expenses	**(13)**	**(78)**

Expensed audit fee

(NOK million)	2013	2012
Statutory audit (incl. technical assistance with financial statements)	(2)	(1)
Other assurance services	(0)	(1)
Other assistance	(2)	(1)
Total audit fees	**(4)**	**(3)**

VAT is not included in the audit fee.

15 Related party transactions

Transactions with group companies

(NOK million)	2013	2012
a) Sales of services	-	34
b) Purchases of services	19	9
c) Sale of assets	-	614

Interest income and interest expenses to group companies are presented seperately 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.

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

Remuneration to executives
Remuneration to executives is disclosed in note 8 to the Group annual report.

Sale of assets
With effect from end of the day 31 December 2012 all licenses, personell and other activities in Norwegian Energy Company ASA were sold to the subsidiary Noreco Norway AS. The consideration of NOK 614 million is based on arms length principles. Statement in accordance with Norwegian Private Public Limited Liability Companies Act §3-8 is prepared. Noreco Norway AS is a 100% owned subsidiary of Altinex ASA which is a 100 percent owned subsidiary of Norwegian Energy Company ASA.

Notes

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

License	Equity	License	Equity
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. Choice 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.

16 Subsequent events

On 21 January 2014 the repair share issue related to the refinancing in the fourth quarter 2013 was paid out to the Company. The share issue was oversubscribed and new share capital amounts to NOK 100 million. 1 000 000 000 new shares were issued, and the total shares issued for the Company after this was 5 656 094 082.

On 14 February 2014 Noreco issued 2 391 002 new shares at a price of NOK 0.14403 per share as part of its employee incentive scheme. Following registration of the share capital increase the total number of shares issued in Noreco are 5 658 485 084, each with a nominal value of NOK 0.10.

On 19 February 2014 Noreco signed an agreement with Dong & RWE where Noreco agreed to transfer DKK 445 million to an escrow account that is pledged in favor of DONG and RWE. The escrow account will be the security for abandonment obligation related to the Nini and Cecilie fields.

AUDITOR'S REPORT

KPMG

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

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

To the Annual Shareholders' Meeting of Norwegian Energy Company ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Norwegian Energy Company ASA, which comprise the financial statements of the parent company Norwegian Energy Company ASA and the financial statements of Norwegian Energy Company ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2013, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the 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.

KPMG AS, a Norwegian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

KPMG

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 2013, 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 financial statements

In our opinion, the 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

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 in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the 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, 25 March 2014
KPMG AS

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

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STATEMENT OF COMPLIANCE

Board and management confirmation

Today, the Board of Directors, the Chief Executive Officer and the Chief Financial Officer reviewed and approved the Board of Directors' Report and the Norwegian Energy Company ASA consolidated and separate annual financial statements as of 31 December 2013.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2013 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.

25 March 2014
(Translation made for information purposes only.)

Morten Garman Chairman	**Hilde Drønen** Board member	**Marika Svärdström** Board member	**Erik Henriksen** Board member
David Gair Board member	**Hilde Alexandersen** Employee Representative	**Bård Arve Lærum** Employee Representative	**Svein Arild Killingland** CEO

GLOSSARY

APA	Awards in Predefined Areas, system for awarding production licenses in mature areas of the Norwegian Continental Shelf
Appraisal well	A well drilled to determine the physical extent 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
License	Permit granted to an oil company from the government of a country to explore for and produce oil and gas
mmboe	Million barrels of oil equivalent
NCS	Norwegian Continental Shelf
NOK	Norwegian kroner
Noreco	Norwegian Energy Company ASA
Operator	The oil company responsible for carrying out the daily operations of a production license on behalf of the other licensees
Oslo Børs	Oslo Stock Exchange
PDO	Plan for Development and Operation, Norwegian term for the formal plan for developing and operating a field
PL	Production License
R&D	Research & Development
Spudding	Initiation of drilling operations
UKCS	UK Continental Shelf
Unrisked	Potential volumes before applying a risk factor
Upstream	Segment of the oil industry that cover the exploration, development, production and transport of oil and gas prior to refining
USD	US Dollar
Working interest	The percentage interest ownership a company has in a license