Noreco is an oil and gas

company in the

# North Sea

## This is the Quarterly report

Fourth quarter 2007

NORECO

# Report for fourth quarter 2007

Norwegian Energy Company ASA

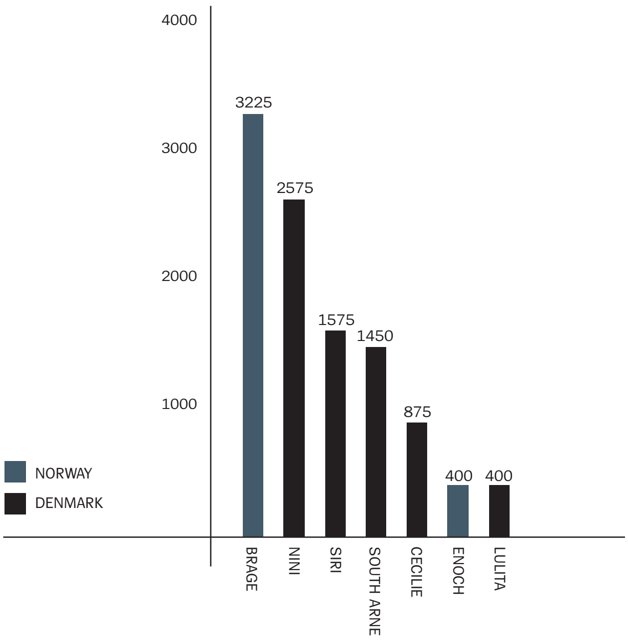
## HIGHLIGHTS

- Noreco Group had operating revenues of 448 MNOK, earnings before interest, tax, depreciation and amortization (EBITDA) of 278 MNOK, and net earnings after finance and tax of -77 MNOK
- Production of 10,500 boed realized at an average price of 83 $/boe in the quarter
- Submission of plan for development for Nini East
- Extensive exploration and drilling program commenced, the first 4 wells of a program of over 30 wells in 3 years have been successfully completed
- Acquisition of 12% interest in licenses 9/95 and 9/06 in Denmark from Chevron
- Loan facility agreement of 800 MNOK signed, providing efficient financing of NCS over the next two years

## OPERATIONS

**Production and fields**

The Noreco Group's production for Q4 2007 was on average 10,500 barrels of oil equivalents per day (boed). The graph shows the net production from each of the seven fields in the portfolio.




*Brage* Well A-28 was drilled as a long reach well to develop reserves in the Ness Formation in the Bowmore structure at the north flank of the Brage field. The well found the Ness Formation with better reservoir quality than expected. The reserve estimate for the new well is now expected to be in the high range of the pre-drill estimate. The well will be handed over to production by mid February and is expected to contribute significantly to Brage production in 2008.

The next well on Brage will be spudded immediately following the A-28 well. This well is a gas injector in the Sognefjord Formation. The well is expected to be completed in 3Q. The wells objective is to provide pressure support and improved oil recovery from the Sognefjord Formation.

Brage production in 4Q 2007 has been above the operator forecast and in line with Noreco's estimates 4Q. December production was slightly lower than expected due to reduced water injection. In January 2008 Brage production was back up at the expected production levels.

*Enoch* production in 4Q was marginally lower than expected, and in January 2008 the operator put the Enoch production well on gas lift to improve the production rate from the well. The well has responded well to the gas lift and was producing above the forecasted rate in January. The start of gas lift operations is planned for 2008 and will ensure that the well can produce effectively against lower wellhead pressures. Work is also ongoing on Enoch to determine the scope and cost of going to low pressure operations for the Enoch well through modification at the Brae host facilities.

On the *South Arne* field the SA-19 well is still producing from an uncompleted wellbore, where the broken drill string serves as a production liner. Full completion is expected in 1Q 2008. The Operator succeeded early February 2008 in removing a plug in the SA-9 well, whereby the initial production before clean up was 1,400 barrels per day plus associated gas. The intervention was made by a relatively cheap coiled tubing operation, saving a budgeted expensive rig intervention.

On the *South Arne Northern Extension* (SANE) a project sanction is scheduled for end 2008.

On the *South Tor Prospect*, south of South Arne and partly included in the South Arne field delineation, an appraisal well is planned and is expected to be drilled Q2/Q3 2008.

On the *Siri* field, the ENSCO-70 rig arrived on 22 December 2007 and has been waiting on weather to be able to rig up at the platform for drilling of the SCA-12 infill well. The platform was shut down for 2 days in January in an unsuccessful attempt to move the rig to the platform. The ruptured water injection pipeline from Siri to Stine Segment 1 and Nini resumed operation at reduced pressure in November 2007. An extensive measurement and analysis program is to be presented to for partners in February and a decision for a full or partial renewal of the pipeline is likely to be taken in 1Q 2008.

On the *Nini* field the production from the new well to the Ty reservoir is still at a high level (approximately 6,000 barrels per day) compared to expectations prior to drilling.

A Field Development Plan for *Nini East* has been submitted to the Danish Energy Authority and approval was received late January 2008. The plan comprises an unmanned wellhead platform tied back via Nini to the Siri platform. Reserves are estimated at 16 million barrels oil equivalents of which Noreco's share is 30%. The operator Dong is targeting a fast track schedule with production starting in 4Q 2009.

On *Cecilie* production has been fairly stable during the quarter, and no development activities have taken place.

On *Lulita* production has been fairly stable during the quarter, but with some shutdowns caused by maintenance on the downstream DUC infrastructure, and no development activities have taken place.

**Exploration and appraisal**
Activities during Q4 2007 have focused on the appraisal drilling programme on three discoveries, the Oselvar and Nemo discoveries on the NCS and the Huntington discovery on the UKCS.

Noreco is a 20% partner in the discovery 22/14b-5 *Huntington* in UK license P-1114. Oilexco is the operator. Two significant discoveries of oil in sandstone reservoirs of Paleocene and Jurassic/Triassic age were made earlier this year. Well 22/14b-6 was completed in December. The well penetrated the Forties Formation in a total of 8 locations and a well test was completed over two intervals in the Forties Formation. The well results are positive and a full interpretation is currently being performed to look at volumes and development scenarios. Well 22/14b-8 was spudded immediately following the 22/14b-6 well with the primary objective of appraising the Fulmar Formation down dip of the 22/14b-5 discovery well. The well also penetrated the flank of the Forties Formation. The well was completed in early February. The data and the results from the well are currently under evaluation by the Huntington partnership, and development planning has started.

The PL148 *Nemo* 7/7-3 appraisal well was spudded in December 2007. Noreco holds 20% of the field. The primary well objective is to prove sufficient reserves in the Nemo discovery to proceed with development planning for the field. The well is expected to be completed in February 2008. Currently the reservoir section of the well has been cored, and wireline logs are being run to evaluate the reservoir.

The *Oselvar* discovery (1/3-6) has been appraised with Wells 1/3-10S and 10SA. Noreco acquired 15% of this PL 274 from Revus in 2007. All objectives of the appraisal wells were successfully met, and established the fluid contacts and the connectivity within the Paleocene reservoir. Noreco's resource estimate is 42 mmboe, with an uncertainty range of 25–63 mmboe. The partnership plans to submit a Plan for Development and Operation in 2008. An additional well on a separate nearby prospect, Ipswich, will be drilled during the summer of 2008.

Noreco, as operator for the Danish license 7/06, is presently evaluating the commercial potential and fast development of the *Rau* oil discovery appraised in 2007. The discovery is located just 9 km southwest of the Cecilie production platform.

Noreco was one of the most successful companies in the *APA2007* with 9 license awards of which 3 are operated licenses. Additionally, Noreco was awarded a license in the Barents Sea, the first license we have in this very interesting exploration area. The result is seen as the Authorities' response to the extensive subsurface work involved in the applications.

The government requested the companies to nominate blocks for inclusion into the Norwegian *20th Round*, announced to take place during 2008. Noreco nominated several blocks and continues the work towards applications later this year.

Noreco is planning to apply in the 25th UK licensing round, and preparations are well underway. Several interesting areas are under study, both alone and in cooperation with other companies.

Planning of Noreco's first operated well at PL412 in Norway is underway. Long lead items will be ordered in Q2 2008.

**Growth and business development**

Noreco continues to believe that significant value can be generated through inorganic activity, and plans to continue its active approach to acquisitions and divestures. Having built a significant and focused North Sea E&P portfolio, the company will seek to highgrade its portfolio in 2008. This could include farm-outs, swaps, acquisitions, relinquishments and sales.

An agreement for Noreco to acquire a 12% interest in license 9/95 and 9/06 in Denmark from Chevron was signed 8 November 2007. The licenses are located near the Amalie field where Noreco holds a 29.92% interest, and contain the substantial exploration prospects Gita and Maja. An exploration well at Gita/Maja is planned in 2008. The acquisition is subject to completion of the agreement.

The partners of production license PL347 has decided to relinquish the license. Noreco held a 17.5% share in the license.

The following transactions were completed in 4Q:

- Sale of all shares in Altinex Services AS – agreement with IKM Testing AS 26 Oct 2007
- Sale of all shares in Altinex Reservoir Technology AS – agreement with IKM Laboratorium AS 31 Oct 2007
- Sale of all assets in Oman (block 3 and 4) – agreement with Tethys Oil AB 8 Nov 2007
- Relinquishment of German licenses B20 008/64 and B20 008/69 in October 2007

**Health, Safety and Environment**

There were no major injuries or lost time incidents in Noreco's non-operated activities in Q4 2007.

The integration process following Noreco's acquisition of Altinex ASA has advanced according to plan with enthusiastic involvement from staff. New and aligned employment contracts are signed for all employees, and a common compensation and benefit package has been established and implemented.

The absence due to sickness percentage is very low (less than 1%).

An update of the Noreco management system is being processed, and training and engagement of the organization is ongoing as an important element of this process.

The Noreco organization is still growing and it is with satisfaction we observe that qualified and experienced personnel continuously are being recruited into our company. By the end of 2007 Noreco employed 70 skilled people.

Stavanger, 13 February, 2008
The Board of Directors of Norwegian Energy Company ASA

## IFRS CONSOLIDATED FIGURES

The Noreco Group had forth quarter 2007 operating revenues of MNOK 448 and earnings before interests, tax, depreciation and amortization (EBITDA) of MNOK 277. Net result after finance and tax was MNOK -77. The achieved oil, gas and NGL prices adjusted for the cost of put-options expiring in the same period was USD 83/boe.

The producing assets are depreciated with MNOK 143. Exploration costs are directly expensed with MNOK 6.6.

Net financials in the fourth quarter was MNOK -131. This figure includes MNOK 14.1 related to net exchange loss and other financial expenses.

Noreco has oil price hedging instruments in place, which secure a major part of expected production volume against oil prices below USD 75 per barrel up to April 2009 and for oil prices below USD 50 per barrel through the first quarter of 2010.

Total equity and liabilities as at 31 December 2007 were MNOK 10,342 with equity of MNOK 1,677. At the end of 2007, the Group’s interest bearing debt was MNOK 4,837 and the Group held MNOK 973 in cash.

# Consolidated income statement

IFRS

| All figures in tNOK | Q4 07 | Q4 06 |
|---|---|---|
| Operating income | 447 686 | 0 |
| Production cost | 114 422 | 0 |
| Exploration costs expensed | 6 547 | 9 469 |
| Other operating expenses | 48 834 | 20 810 |
| Operating results before depreciation and amortization (EBITDA) | 277 883 | -30 279 |
| Depreciation and amortization | 143 070 | 143 |
| Operating result (EBIT) | 134 813 | -30 421 |
| Financial items, net | -131 123 | -12 |
| Profit before tax (EBT) | 3 690 | -30 433 |
| Tax | 80 601 | -23 253 |
| **Net results** | **-76 910** | **-7 181** |

| All figures in tNOK | 2007 | Proforma 2007 | 2006 | Proforma 2006 |
|---|---|---|---|---|
| Operating income | 839 664 | 1 474 174 | 0 | 1 609 000 |
| Production cost | 214 830 | 348 746 | 0 | 258 006 |
| Exploration costs expensed | 145 543 | 166 033 | 25 735 | 69 123 |
| Other operating expenses | 151 856 | 215 755 | 60 806 | 216 412 |
| Operating results before depreciation and amortization (EBITDA) | 327 436 | 743 640 | -86 541 | 1 065 459 |
| Depreciation and amortization | 278 386 | 624 107 | 694 | 793 272 |
| Operating result (EBIT) | 49 051 | 119 533 | -87 235 | 272 187 |
| Financial items, net | -298 210 | 609 881 | -830 | -619 655 |
| Profit before tax (EBT) | -249 159 | -490 347 | -88 064 | -347 468 |
| Tax | -50 469 | -30 969 | -68 205 | -132 171 |
| **Net results** | **-198 688** | **-459 378** | **-19 859** | **-215 297** |

# Consolidated balance sheet

IFRS

| All figures in tNOK | 31.12.07 | 31.12.06 |
| --- | --- | --- |
| **Non-Current assets** | | |
| Goodwill | 1 445 992 | 0 |
| Deferred tax assets | 111 391 | 5 147 |
| License interests, exploration assets | 4 379 448 | 8 882 |
| Production facilities | 2 803 887 | 0 |
| Other machinery and equipment | 6 236 | 1 804 |
| **Total non-current assets** | **8 746 954** | **15 831** |
| **Current assets** | | |
| Inventory, including underlift | 110 573 | 0 |
| Account receivables and other current receivables | 245 579 | 4 842 |
| Tax receivables | 265 866 | 77 464 |
| Bank deposits, cash in hand, etc. | 973 402 | 11 970 |
| **Total current assets** | **1 595 420** | **94 277** |
| **Total assets** | **10 342 373** | **110 108** |
| | | |
| **Equity** | | |
| Share capital | 345 385 | 31 422 |
| Other equity | 1 332 066 | 24 302 |
| **Total equity** | **1 677 451** | **55 724** |
| | | |
| **Liabilities and obligations** | | |
| Deferred tax liabilities | 2 396 463 | 0 |
| Provisions for other liabilities and charges | 712 452 | 252 |
| Convertible loan | 349 232 | 0 |
| Bond issue | 3 742 199 | 0 |
| Other long-term interest bearing debt | 523 843 | 0 |
| **Total liabilities and obligations** | **7 724 189** | **252** |
| **Short term liabilities** | | |
| Other short term interest bearing debt | 222 000 | 35 000 |
| Current income taxes payable | 92 765 | 0 |
| Other current liabilities | 625 968 | 19 132 |
| **Total short term liabilities** | **940 733** | **54 132** |
| | | |
| **Total liabilities** | **8 664 922** | **54 384** |
| **Total equity and liabilities** | **10 342 373** | **110 108** |

# Consolidated cash flow statement

| All figures in tNOK | Q4 07 | Q4 06 | For the period 01.01 – 31.12.07 | For the period 01.01 – 31.12.06 |
|---|---|---|---|---|
| Net cash from operating activities | 59 242 | -11 230 | 215 135 | -80 373 |
| Net cash from investing activities | -226 250 | -2 967 | -4 507 197 | -9 916 |
| Net cash from financing activities | 678 662 | 20 075 | 5 253 494 | 60 643 |
| Net change in cash and cash equivalents | 511 654 | 5 878 | 961 432 | -29 646 |
| Cash and cash equivalents at the beginning of period | 461 748 | 6 091 | 11 970 | 41 616 |
| **Cash and cash equivalents at the end of period** | **973 402** | **11 970** | **973 402** | **11 970** |

# Consolidated statement and changes in equity

| All figures in tNOK | Q4 07 | Q4 06 | For the period 01.01 – 31.12.07 | For the period 01.01 – 31.12.06 |
|---|---|---|---|---|
| Balance at the beginning of period | 1 267 484 | 62 904 | 55 723 | 49 940 |
| Capital increase | 560 520 | 0 | 1 966 171 | 25 643 |
| Share issue cost | -3 810 | 0 | -55 351 | 0 |
| Transferred from convertible bonds | -263 | 0 | 53 487 | 0 |
| Recognition of share based payments/convertible bond | -17 291 | 0 | -11 375 | 0 |
| Valueadjustment financial instruments | 14 963 | 0 | 11 966 | 0 |
| Currency translation differences | -67 242 | 0 | -144 483 | 0 |
| Net results for the period | -76 910 | -7 181 | -198 688 | -19 859 |
| **Balance at the end of period** | **1 677 451** | **55 724** | **1 677 451** | **55 724** |

# Notes

## to the quarterly consolidated financial statements

**1) Basis for preparation**
The consolidated interim financial statements for the fourth quarter of 2007 comprises Norwegian Energy Company ASA (Noreco) and its subsidiaries.

The consolidated interim financial statements for the fourth quarter of 2007 have been prepared in accordance with the regulations of Oslo Stock Exchange and IAS 34 “The interim financial statements”. The interim financial statements do not include all information required for annual financial statements and should for this reason be read in conjunction with Noreco’s 2006 consolidated financial statement and Altinex ASA annual report for 2006. The accounting principles applied are prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union and interpretations by the International Accounting Standard Board (IASB).

**2) Basis for preparation of the pro forma figures**
The unaudited pro forma financial information has been compiled in connection with the acquisition of Altinex, to illustrate the main effects the acquisition of Altinex (“the transaction” or “the Altinex acquisition”) would have had on the consolidated profit and loss statement for Noreco.

The unaudited pro forma condensed profit and loss statement for the year 2007 and the twelve months ended 31 December 2006 give effect to the acquisition of Altinex as if it had occurred on 1 January 2007 and 1 January 2006 respectively.

Because of its nature, the pro forma financial information addresses a hypothetical situation and therefore does not represent the Company’s actual financial results. The pro forma financial information is prepared for illustrative purposes only.

**3) Share capital/equity**
The company raised 550 MNOK in equity in October 2007. The share capital has thereby been raised from 292.2 MNOK as per 30.09.2007 to 345.4 MNOK as per 31.12.2007.

**4) Share options and share based payments**
Noreco has in January 2008 established an incentive scheme for the management and other employees under which options exercisable into ordinary shares in the Company are granted.

**5) Exploration and development costs for oil and gas assets**
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. These costs are temporarily capitalized pending an evaluation of the economics of the exploration drilling findings. If hydrocarbons are discovered, the costs remain capitalized. If no hydrocarbons are found or if the discoveries are not commercially profitable, the drilling costs are expensed. All costs of developing oil and gas fields are capitalized.

**6) Depreciation and amortization**
Depreciation of production equipment is calculated in accordance with the unit of production method. The acquisition cost for Altinex is shared between debt and equity in accordance with IFRS principles. The added values which are allocated to producing fields will be amortized in accordance with the unit of production method.

**7) Taxes**
Income tax expenses for the period are calculated based on the tax rate applicable to the expected total annual earnings. The ordinary income tax is 25% in Denmark and 28% in Norway. In addition, there is an extra petroleum tax of 50% related to exploration and production on the Norwegian Continental Shelf. In Denmark there is a petroleum tax of 70%, but at current oil price levels the Danish subsidiary will not be in a position where they have to pay the extra petroleum tax.

The deferred tax and tax advantage is based on the difference between book value and fiscal value of assets and liabilities.

**8) Goodwill – Deferred tax liabilities**
The acquisitions of Altinex ASA has been treated in accordance with IFRS 3 – Business Combinations. The acquisition prices are allocated to assets and liabilities at the estimated fair values at the acquisition dates. The tax base of the acquired assets and liabilities is not affected by the acquisitions. As all acquisitions are treated as Business Combinations, the difference between new fair values and booked values prior to the acquisitions result in a change in the deferred tax liability. The change in deferred tax liability in turn affects Goodwill. Goodwill is, according to IFRS, not amortized, but will be subject to impairment testing.

**9) Acquisition of Altinex ASA**

As of 30 September Noreco had acquired 100 per cent off the issued share capital of Altinex ASA. The total consideration for these shares was MNOK 4,344.4, of which MNOK 4,171.9 was paid in cash and MNOK 172.5 through issue of Noreco shares. This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

| All figures in tNOK | Acquirees carrying amount before combination | Transferred to held for sale | Fair value adjustment | Fair value |
|---|---|---|---|---|
| **Net assets acquired:** | | | | |
| Goodwill | 583 817 | | | 583 817 |
| Deferred tax assets | 50 929 | -8 922 | | 42 007 |
| License interests, exploration assets | 402 141 | -356 | 3 827 167 | 4 228 952 |
| Production facilities | 2 298 648 | | 342 534 | 2 641 182 |
| Other mashinery and equipment | 21 184 | -16 724 | | 4 460 |
| Long term financial assets | | | | |
| Total assets held for sale | | -1 422 | | -1 422 |
| Inventory, including underlift | 81 306 | -9 539 | | 71 767 |
| Account receivables and other current receivables | 130 135 | -13 729 | | 116 406 |
| Tax receivables | | | | |
| Bank deposits, cash in hand, etc. | 220 306 | 5 625 | | 225 931 |
| Minority interests | | | | |
| Deferred tax liabilities | -478 400 | | -1 834 500 | -2 312 900 |
| Removal liabilities | -362 781 | | | -362 781 |
| Long term liabilities | -1 711 967 | 23 500 | 230 761 | -1 457 706 |
| Current liabilities | -405 694 | 21 567 | | -384 127 |
| Goodwill arising on acquisition | | | | 955 514 |
| Total consideration, satisfied by cash and share issue | | 4 351 100 | | |

The result contributed by Altinex ASA in the period between the date of acquisition and the balance sheet date were not significant.

Noreco disposed of Altinex Services AS and Altinex Reservoir Technology AS in Q4 2007.

If the acquisition had been completed on 1 January 2007, total group revenue for 2007 would have been MNOK 1,474.2, and net loss for the period would have been MNOK 459.4.

**10) Approval of interim financial statements**

The interim financial statements were approved by the board of directors on 13 February 2008.

Stavanger, 13 February, 2008
The Board of Directors of Norwegian Energy Company ASA

FASETT photo: Geir Egil Bergjord

NORECO

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