Noreco

Third quarter
2011

Report for the third quarter 2011

Norwegian Energy Company ASA

Report for the third quarter 2011

Norwegian Energy Company ASA

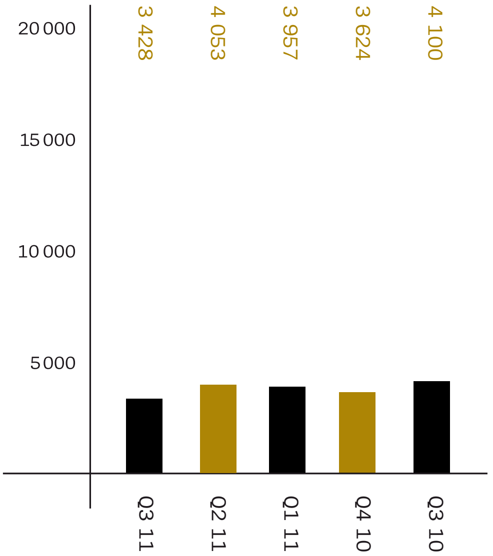
HIGHLIGHTS

- Substantial asset sales completed
- Repurchased bonds for NOK 270 million
- Small gas discovery on Cortina
- Average production 3,428 barrels of oil equivalents (boe) per day
- Oil price realised at USD 110 per boe
- Goodwill write-down of NOK 230 million mainly related to Huntington Fulmar

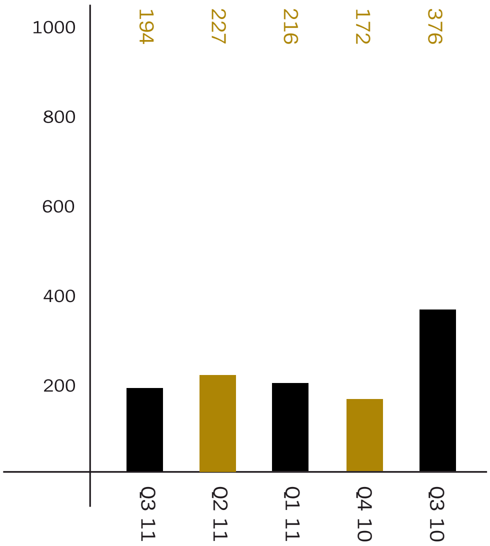
KEY FIGURES

	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10
Net realised oil price *(USD/boe)*	110	110.5	103	83.9	74.4	75.4
EBITDA *(NOK million)*	(45.4)	9.9	(132.6)	(272.9)	(28.6)	(22.9)
Net results *(NOK million)*	(395.2)	(157.5)	(295.1)	(135.4)	167.1	(6)
Total assets *(NOK billion)*	11.7	12.2	12.5	12.7	12.6	12.4

Production *(boed)*



Operating income *(NOK million)*



GROUP FINANCIALS

During the third quarter 2011, Noreco entered into agreements to sell its interests in the South Arne and Siri fields, in addition to the Flyndre Palaeocene discovery. These assets have consequently been re-classified as discontinued operations in the financial statements.

Net result from discontinued operations for the third quarter amounted to NOK -2 million. Included in this amount is a write-down on Siri of NOK 293 million, which has been offset by gains on South Arne and Hyme. Previous periods' results have been adjusted accordingly for comparison.

The Noreco Group had revenues from continued operations of NOK 194 million in the third quarter 2011, an increase of 10 percent compared to third quarter 2010. The increase was driven by higher oil prices which more than compensated for lower production volumes. Production in the quarter was 3,428 boe per day, down from 4,101 boe per day for the same period last year (excluding divested fields), mainly due to lower production regularity. The achieved average oil, gas and NGL prices adjusted for the cost and income from put options expiring in the quarter was USD 110 per boe, compared to USD 75 per boe in the third quarter 2010.

Production expenses were NOK 57 million, up 12 percent from the same quarter in the previous year for the continued operations. The main reason for the increase was additional production cost for the fields in the Siri area pending repairs of a riser between the Siri platform and the subsea storage tank.

Exploration costs amounted to NOK 103 million, reflecting acquisitions of seismic data for several exploration licenses. The company was involved in one exploration well in the quarter, which resulted in a gas discovery, and consequently the drilling cost has been capitalised (see Note 3). Payroll expenses were NOK 51 million, which included a one-off expense of NOK 16 million related to workforce reductions. Other operating expenses were NOK 30 million.

EBITDA (earnings before interest, tax, depreciation and amortisation) from continued operations in third quarter 2011 was NOK -45 million, compared to NOK -30 million in third quarter 2010.

Depreciation amounted to NOK 57 million.

The company has made a write-down of goodwill in the quarter of NOK 230 million related to the Huntington field, mainly driven by the expiry of the license period for non-developed parts of the area which contains parts of the Fulmar discovery.

Net financial items came in at NOK -106 million for the quarter. Tax amounted to an income of NOK 46 million. Net result from continued operations for the quarter was a loss of NOK 393 million, comparable to a loss of NOK 60 million in the third quarter 2010 for the same activities.

Noreco uses oil put options to protect its cash flow against downside risk in the oil price. The company has secured parts of its expected production volume against oil prices below USD 75 and 65 per barrel. Fair value of these put options as of 30 September 2011 was NOK 29 million, recorded as other current receivables in the balance sheet. At the end of third quarter Noreco had cash and cash equivalents of NOK 387 million. Other current receivables amounted to NOK 1,666 million, of which NOK 1,100 million is related to the settlement for the sale of South Arne.

During the third quarter the company repurchased bonds for a nominal value of NOK 270 million, constituting 10 percent of the outstanding amount of the bonds NOR03, NOR04 and NOR05.

GROUP STRUCTURE

Siri Holdings Ltd and Altinex ASA are guarantors for two of the bond loans issued by Noreco (NOR03 and NOR04).
Altinex ASA serves as a sub-holding company for all of Noreco's activities, except what is held through Siri Holdings Ltd, and exploration activities on the UKCS and NCS, which are held in Norwegian Energy Company (UK) Ltd and Norwegian Energy Company ASA respectively.

Consequently, with the exception of the description of the Noreco group's exploration activity and certain elements related to financial income and expenses (which are relevant only for Norwegian Energy Company ASA), the description of highlights and risk elements apply substantially similar to Altinex ASA.

PRODUCING FIELDS

The Noreco Group's production in third quarter 2011 was on average 3,428 barrels of oil equivalents per day (boed). This excludes production from the Brage and South Arne fields which have been sold with economic effective date 1 January 2011, and the Siri field which has been sold with effective date 1 July 2011.

Production regularity at the Nini East, Nini and Cecilie fields was reduced in the third quarter due to leakage in a riser between the Siri platform and a subsea storage tank. The produced oil was temporarily being stored directly on tankers pending repairs. The repairs were completed early October.

DEVELOPMENTS AND DISCOVERIES

Noreco has a 20 percent interest in the Huntington field in the UK which is currently under development. The field is operated by E.ON Ruhrgas UK. Drilling of the development wells commenced in April with the jack-up rig Ensco 100, and drilling has progressed according to plan. The first production well was successfully completed and tested early August. The majority of the marine installation work was completed during the summer.

The Huntington field will be produced with the floating production and storage unit (FPSO) Sevan Voyageur, which is currently being upgraded for the Huntington assignment. The Voyageur will be leased under an agreement with Sevan Marine, which has been going through a restructuring process which was resolved early October by a.o. a sale of the Voyageur to Teekay. The deal with Teekay secures funding for the completion of the Voyageur upgrade. Noreco expects the new owner to provide an update on the schedule for the upgrade work relatively soon. Noreco anticipates first oil from the Huntington field in the second half of 2012.

Development of the Oselvar field in license PL274 in Norway is well underway. Noreco owns 15 percent of the field and DONG Energy is the operator. In June, the drilling of the production wells on Oselvar commenced, and the first production well is currently being completed. The subsea control umbilical was installed during the summer, while pipelay activities commenced in October. The topside module was lifted on board the Ula host platform late May and is currently being integrated into the Ula systems. The project cost on Oselvar is according to budget, and first oil is expected during the first half of 2012.

The development of the Brynhild discovery (previously called Nemo) in license PL148 (Noreco 20 percent) was sanctioned and the PDO was submitted to Norwegian authorities on 1 August. Subsequently Noreco entered into an option agreement which gives the company a right to sell its interest in the license to another party. This option expires in December 2011, and Noreco is currently evaluating its position in the development and will during the fourth quarter make a decision on whether to invest in the project or sell its interest in the license. On the Gita discovery in Denmark (Noreco 12 percent), the seismic re-processing campaign, involving four different surveys and aiming at pre-stack depth migration to improve depth imaging, is complete and geologic re-interpretation is being completed. When the updated geologic models are ready, the planning of the appraisal wells will start with the aim to have the discovery appraised by 2013.

EXPLORATION

Noreco participated in one exploration well in Q3, 6407/5-2S in license PL471 in the Norwegian Sea, which resulted in a small gas discovery.

The well objectives were to prove hydrocarbons in the Chamonix prospect, a stratigraphic trap in the Upper Cretaceous Lysing Formation and in Cortina, a target in Upper and Middle Jurassic. The Lysing sands were found to be tight but in the Jurassic Rogn & Garn Formations the well proved gas with a gross column of around 40 metres. The well has not been formation tested, but extensive data acquisition including coring and sampling has been carried out, giving important information to de-risk similar nearby prospects. The partners are currently evaluating the discovery and will possibly look at opportunities for a tie-back of the discovery to existing infrastructure in the area.

Noreco has taken part in several seismic surveys in the third quarter, one license proprietary survey that is partly completed on PL360 in Norway and several completed multi-client surveys in Norway and the UK. The multi-client surveys are covering partly licensed acreage PL606 in the Barents Sea, PL435/PL591 in Mid-Norway, and P1768 in UK, plus partly open acreage. The final processed data from the seismic surveys will be delivered in first half of 2012.

Noreco submitted several applications for the APA 2011 license round in Norway after extensive regional geoscience work and screening of opportunities.

Noreco and the partners on license PL540 in Norway have decided to relinquish the license.

BUSINESS DEVELOPMENT

In July, Noreco entered into an agreement to sell its interests in Siri to DONG Energy for USD 13 million. Noreco's ownership in the Siri's satellite fields Nini East, Nini and Cecilie remains unchanged. As part of the agreement Noreco is exempted from historical and future costs related to the permanent repair of the Siri caisson. These costs have been estimated to exceed DKK 2 billion in total. Noreco also retains all proceeds from insurance claims relating to the damage to the caisson support structure of the Siri platform, as well as tax balances in Altinex Oil Denmark of USD 26 million. Noreco has now filed all insurance claims relating to both temporary and permanent solution costs for the Siri caisson, and is actively pursuing these claims. The sale of Siri is expected to be completed in the fourth quarter 2011. The transaction has been approved by the Danish authorities.

In August, Noreco entered into an agreement to sell its interests in the South Arne oil field in Denmark to Hess Denmark ApS for a consideration of USD 200 million. The effective economic date of the transaction is 1 January 2011. The gain has been recorded as part of discontinued operations in the third quarter.

In August, Noreco also entered into an agreement to sell its share of the Flyndre Paleocene discovery in license PL018C to Maersk Oil for a consideration of NOK 19 million. The license also contains a discovery in the Cretaceous formation which will be carved out and retained by Noreco. The transaction and carve out of the Cretaceous formation as a separate production license are subject to approval by Norwegian authorities.

In October, Noreco entered into an agreement to sell its 20 percent share of license PL435 on Haltenbanken to OMV (Norge) AS. The license contains the gas discovery Zidane-1 which was made in 2010. The second exploration well in the license is named Zidane-2 and is planned to be drilled later this year. Noreco will receive a consideration of NOK 180 million upon completion of the transaction, and is also entitled to a volume-dependent consideration if a discovery on Zidane-2 proves commercially recoverable volumes of hydrocarbons beyond certain levels. This conditional amount is payable upon approval of a Plan for Development and Operations (PDO) which includes Zidane-2. The transaction is subject to approval by Norwegian authorities.

HEALTH, SAFETY, ENVIRONMENT AND QUALITY

The planning for Noreco's upcoming operated well, the exploration well Luna in license DK 1/11 on the Danish sector, is well underway.

The HSEQ Program and QA Plan for 2011 have been revised to address the changes in the portfolio. The programme continues to address culture, quality, business improvement and prevention of major accidents.

ORGANISATION

In September Noreco completed a review of its organisation following the recent asset sales. This resulted in a leaner management structure and a substantial reduction in the number of employees at the company's office in Denmark. Noreco's management team has been reduced from eight to six positions, and consists of the following:

Einar Gjelsvik, CEO
Ellen Bratland, COO & VP HSE
Lars Fosvold, VP Exploration
Rebekka Glasser Herlofsen, CFO
Kjetil Bakken, VP Investor Relations
John Bogen, VP Commercial

The total number of employees is currently 80, down by 20 percent from the beginning of the year. 34 percent of the employees are female, and 10 nationalities are represented in the workforce.

OUTLOOK

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

The new Board is pleased with the work that has been carried out during the quarter with the purpose to improve the company's financial position and streamline its organisation and operations. This work will continue towards the start of new production next year. It is the Board's opinion that the company is now prepared to embark on value creating activities by focusing on operations, project execution and the company's interesting exploration program.

After the recent asset sales, Noreco expects its existing fields to produce around current levels of 3-4,000 boe per day until production starts from the new fields Oselvar and Huntington during 2012. The planned repairs of the Siri platform are expected to cause reduced regularity for the production from Nini East, Nini and Cecilie in the coming quarters. Oselvar is expected to start producing during the first half of 2012, while Huntington is expected to start during second half of 2012. Noreco expects to be involved in up to 10 exploration wells over the next 12-15 months. The exact timing of each well is subject to rig schedules and final drilling decisions in each license.

Noreco's liquidity situation is strong, and combined with expected earnings from the oil production and expected settlement for several significant asset transactions, this provides the company with sufficient liquidity to meet its current commitments and complete its ongoing investment program.

Noreco reported an equity ratio of 24.6 percent at the end of the quarter, which is below the equity ratio covenant of 25 percent in its bond agreements. The covenant has to be breached for two consecutive quarters in order to constitute a default. The company expects an equity ratio above 25 percent in the fourth quarter as a result of completion of the previously mentioned asset sales. This will also further strengthen the company's liquidity and provide the company with the necessary financial flexibility to consider additional debt reduction in the future.

Over time Noreco intends to strengthen its equity ratio and reduce the financial risk. The company will be marketing assets and execute sales when this is seen as value enhancing for Noreco's shareholders.

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

Statement of comprehensive income

All figures in NOK 1 000	Note	Q3 2011	Q3 2010	YTD 2011	YTD 2010	2010
Continued operation						
Revenue	1	194 309	177 086	638 004	453 285	624 670
Other revenue	1	0	0	0	14 872	14 872
Total revenues	1	194 309	177 086	638 004	468 157	639 542
Production expenses	2	56 929	50 604	171 918	129 379	179 300
Exploration and evaluation expenses	3	102 548	86 905	389 326	306 204	606 452
Payroll expenses		50 703	42 074	145 241	112 538	158 457
Other operating expenses		29 572	27 265	101 412	84 183	133 287
Total operating expenses		239 752	206 848	807 897	632 304	1 077 495
Operating results before depreciation and amortization (EBITDA)		**(45 443)**	**(29 762)**	**(169 893)**	**(164 147)**	**(437 953)**
Depreciation	5, 7	57 456	76 635	182 520	196 274	261 654
Write-downs	5, 6, 7	230 000	36 500	230 000	36 500	36 500
Net operating result (EBIT)		**(332 899)**	**(142 898)**	**(582 413)**	**(396 921)**	**(736 107)**
Net finance expenses	4	106 298	112 304	328 965	328 327	444 200
Ordinary result before tax (EBT)		**(439 197)**	**(255 202)**	**(911 378)**	**(725 248)**	**(1 180 307)**
Income tax benefit		46 044	195 532	71 846	475 169	735 170
Net result continued operation		**(393 152)**	**(59 670)**	**(839 532)**	**(250 080)**	**(445 137)**
Discontinued operation						
Profit (loss) from discontinued operation (net of income tax)	5	(2 096)	226 763	(8 372)	389 980	449 662
Net result for the period		**(395 248)**	**167 093**	**(847 903)**	**139 900**	**4 525**
Net result for the period		(395 248)	167 093	(847 903)	139 900	4 525
Other comprehensive income:						
Value adjusted financial instruments		6 196	12 553	6 999	(9 464)	(34 441)
Currency translation difference		85 946	58 400	23 968	73 884	2 393
Total comprehensive net result for the period		(303 106)	238 046	(816 936)	204 320	(27 523)
Earnings per share						
Basic		(1.62)	0.69	(3.48)	0.58	0.02
Diluted		(1.54)	0.67	(3.32)	0.57	0.05

Statement of financial position

All figures in NOK 1 000	Note	30.09.11	31.12.10	30.09.10
Non-current assets				
License and capitalised exploration expenses	6	3 999 572	3 976 833	3 959 631
Deferred tax assets		589 674	594 800	504 362
Goodwill	6	931 505	1 492 598	1 504 298
Production facilities	7	2 292 696	3 546 878	4 170 190
Tax refund		481 106	0	450 593
Total non-current assets		**8 294 552**	**9 611 110**	**10 589 075**
Current assets				
Assets held for sale	8	570 357	590 389	0
Accounts receivable		125 535	208 455	158 492
Tax refund		702 968	730 891	638 041
Other current receivables	9	1 666 448	579 684	562 640
Bank deposits, cash and cash equivalents		386 867	892 482	672 779
Total current assets		**3 452 175**	**3 001 901**	**2 031 952**
Total assets		**11 746 727**	**12 613 011**	**12 621 027**
Equity				
Share capital		755 913	753 418	753 418
Other equity		2 128 516	2 921 443	3 110 985
Total equity		**2 884 429**	**3 674 861**	**3 864 403**
Provisions and other non-current liabilities				
Deferred tax		2 663 439	2 368 027	2 531 181
Provisions for other liabilities and charges		307 374	833 553	806 944
Convertible bond loan	10	0	205 951	203 598
Bond loan	10	2 993 297	2 658 582	1 970 235
Other interest bearing debt	10	1 097 227	943 612	1 411 773
Total provisions and other non-current liabilities		**7 061 337**	**7 009 725**	**6 923 731**
Current liabilities				
Liabilities/debt held for sale	8	379 610	231 539	0
Other interest bearing debt	10	947 276	1 085 304	1 125 512
Trade payables		26 369	86 060	35 260
Current tax payable		12 319	114 716	277 980
Public duties payable		3 413	22 760	45 275
Other current liabilities	11	431 973	388 047	348 866
Total current liabilities		**1 800 961**	**1 928 426**	**1 832 893**
Total liabilities		**8 862 298**	**8 938 151**	**8 756 624**
Total equity and liabilities		**11 746 727**	**12 613 011**	**12 621 027**

Statement of cash flow

All figures in NOK 1 000	YTD Q3 2011	YTD Q3 2010
Ordinary result before tax continued operation	(911 378)	7 252 488
Ordinary result before tax discontinued operation	272 581	628 785
Tax paid	(126 412)	(182 886)
Depreciation and writedowns	856 946	457 646
Write-downs dry well, previous years investments	5 588	43 864
(Gain) / Loss on sale of discontinued operation	(40 980)	(199 082)
Effect of changes in exchange rates/other effects equity	53 867	(18 150)
Financial instruments at fair value	6 999	35 553
Amortisation of borrowing expenses	32 043	29 723
Calculated interest on abandonment provision	48 769	59 981
Other items with no cash impact	4 500	3 000
Changes in accounts receivable	82 920	(24 873)
Changes in trade payables	(59 691)	(683)
Changes in other current balance sheet items	84 578	321 935
Net cash flow from operations	**310 332**	**429 564**
Cash flows from investing activities		
Proceeds from sale of intangible fixed assets	0	265 545
Proceeds from sale of tangible fixed assets	318 537	0
Purchase of tangible assets	(763 417)	(509 996)
Purchase of intangible assets	(180 055)	(180 157)
Net cash flow from investing activities	**(624 935)**	**(424 608)**
Cash flows from financing activities		
Issue of share capital	14 399	11 322
Proceeds from issuance of long term debt	593 154	353 834
Repayment of long term debt	(270 000)	0
Repayment of short term debt	(207 571)	(79 292)
Interest paid	(318 980)	(278 213)
Net cash flow from (used in) financing activities	**(188 997)**	**7 651**
Net change in cash and cash equivalents	**(503 601)**	**12 607**
Cash and cash equivalents at start of the year	892 482	659 812
Effects of changes in exchange rates on cash and cash equivalents	(2 015)	360
Cash and cash equivalents at end of the quarter	**386 866**	**672 779**

Statement of changes in equity

All figures in NOK 1 000	30.09.11	31.12.10	30.09.10
Equity at the beginning of period	3 674 861	3 722 223	3 722 223
Adjustments opening balance (1)	0	(38 291)	(38 291)
Capital increase	14 399	11 322	11 322
Share-based incentive program	12 105	7 130	10 411
Value adjusted financial instruments	6 999	(34 441)	(23 531)
Translation differences foreign exchange	23 968	2 393	4 078
Net results for the period	(847 903)	4 525	139 900
Equity at the end of period	2 884 429	3 674 861	3 826 112

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

Notes

to the quarterly consolidated financial statements

ACCOUNTING PRINCIPLES

Basis for preparation

The consolidated interim financial statement for the third quarter of 2011 comprises Norwegian Energy Company ASA (NORECO) and its subsidiaries.

These consolidated interim financial statements have been prepared in accordance with IAS 34 and The Norwegian Securities Trading Act § 5 – 6.

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

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

The interim financial statements do not include all information required for annual financial statements and should for this reason be read in conjunction with Norecos's 2010 annual report. 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).

Share capital

There has been no change to the capital in this quarter. The share capital as per 30.09.2011 is NOK 755,9 million.

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 and expected to be commercially profitable, 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.

Depreciation and amortization

Depreciation of production equipment is calculated in accordance with the unit of production method. The excess value allocated to producing fields arising from acquisitions is amortized in accordance with the unit of production method.

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 percent in Denmark and 28 percent in Norway and United Kingdom. In addition, there is an extra petroleum tax of 50 percent in Norway related to exploration and production on the Norwegian Continental Shelf and 34 percent in UK related to exploration and production on the English Continental Shelf. In Denmark there is a petroleum tax of 70 percent, 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 liabilities and tax assets are based on the difference between book value and tax value of assets and liabilities.

Goodwill – Deferred tax liabilities

The acquisitions of Altinex ASA and Talisman Oil Denmark AS have 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 results 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.

Incentive schemes

As a consequence of a decision made at the Annual General Meeting where a request for authorization to the board to increase share capital for honoring the incentive schemes was not approved, these obligations now follow the rules of cash settlement and consequently the fair value of the obligations at the date of modification have been reclassified from equity to debt. The amount reclassified was NOK 2,0 million of which NOK 0,3 million related to key management personnel.

Subsequent events

22 July 2011, Noreco entered into a Transfer Agreement with DONG E&P A/S according to which Noreco sell's its interest in the Siri field in Denmark.

The agreement involves Noreco's 50 percent interest in license 6/95 in Denmark, and the price is USD 13 million with effective date 1 July 2011.

The transaction is expected to be completed in the fourth quarter 2011 but is not expected to have any impact on the forth quarter 2011 result as the necessary write down following the sale has been accounted for in the third quarter result.

10 August 2011, Noreco entered into a Sales and Purchase Agreee-ment with the partners in licens 7/89 South Arne according to which Noreco sell's its interest in the field.

The sale was finally completed 26 October 2011, and as all material conditions Precedent had been fulfilled prior to the closure of the accounts the profit have been accounted for in the third quarter 2011 report.

20 October 2011, Noreco entered into a Transfer Agreement with OMV (Norge) AS according to which Noreco sell's its interest in license PL435.

The agreement involves Noreco's 20 percent interest in license PL 435, and the price is NOK 180 million with effective date 1 January 2011.

The transaction is expected to be completed in the fourth quarter 2011 and is expected to impact the fourth quarter 2011 result with a gain of NOK 150 million.

1 Revenue

(NOK 1 000)	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Continued operation				
Sale of oil	195 522	179 481	640 710	457 657
Sale of gas and NGL	2 166	1 696	6 534	4 675
Revenue from oil price hedging	0	0	0	415
Cost from oil price hedging 1)	(3 379)	(4 091)	(9 239)	(9 462)
Other revenue 2)	0	0	0	14 872
Total revenue continued operation	194 309	177 086	638 004	468 157
Total revenue discontinued operation	103 100	254 443	713 954	1 004 841
Total revenue	297 409	431 529	1 351 958	1 472 998

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

(2) Other revenues is related to expected insurance coverage for the loss of oil production from the Siri area fields.

2 Production expenses

(NOK 1 000)	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Continued operation				
Direct production expenses	35 059	38 415	100 053	105 177
Duties, tariffs, royalties	13 110	16 576	44 031	47 212
Other expenses	8 761	(4 386)	27 834	(23 010)
Total production expenses continued operation	56 929	50 604	171 918	129 379
Total production expenses discontinued operation	50 304	93 971	199 975	268 004
Total production expenses	107 233	144 575	371 894	397 384

3 Exploration and evaluation costs

(NOK 1 000)	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Continued operation				
Acquisition of seismic data, analysis and general G&G costs	53 857	58 106	106 251	172 028
Exploration wells capitalised in previous years	0	0	5 588	7 519
Dry exploration wells this period	(4 787)	(155)	205 236	71 136
Other exploration and evaluation costs	53 478	28 954	72 251	55 521
Total exploration and evaluation costs continued operation	102 548	86 905	389 326	306 204
Total exploration and evaluation costs discontinued operation	942	3 099	4 260	6 392
Total exploration and evaluation costs	103 491	90 004	393 586	312 596

Specification of cash flow concerning exploration and evaluation activities

(NOK 1 000)	Q3 2011	Q3 2010	YTD 2011	YTD 2010
Continued operation				
Exploration and evaluation costs capitalised as intangible assets this period	131 686	117 797	168 515	169 849
Exploration and evaluation costs directly expensed this period	102 548	86 905	383 739	298 685
Amount invested in exploration and evaluation activities this period continued operation	234 234	204 701	552 254	468 534
Discontinued operation				
Exploration and evaluation costs capitalised as intangible assets this period	394	6 518	11 539	10 463
Exploration and evaluation costs directly expensed this period	942	3 099	4 260	6 392
Amount invested in exploration and evaluation activities this period discontinued operation	1 336	9 618	15 799	16 855
Amount invested in exploration and evaluation activities this period	235 570	214 319	568 052	485 389

4 Financial income and expenses

(NOK 1 000)

Continued operation

Financial income	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**
Interest income	6 890	1 244	17 068	5 314
Other financial income	43 008	26 403	78 831	45 325
Total financial income	49 899	27 647	95 898	50 639

Financial expenses	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**
Interest expense from bond loans	91 287	67 537	260 590	202 456
Interest expense from convertible loan	3 278	3 278	9 833	9 833
Interest expense from other non-current liabilities	10 540	12 646	31 803	36 996
Interest expense from exploration loan	10 497	10 147	31 301	25 960
Capitalised interest expenses	(10 170)	(5 245)	(25 639)	(12 864)
Amortisation from loan costs	10 631	10 482	32 043	29 723
Imputed interest from abandonment provisions	6 153	6 876	18 646	20 380
Interest expenses current liabilities	912	236	3 266	786
Other financial expenses	33 070	33 993	63 021	65 697
Total financial expenses	156 196	139 951	424 863	378 966
Net financial items continued operation	(106 298)	(112 304)	(328 965)	(328 327)

Discontinued operation

Financial income	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**
Interest income	445	169	518	1 072
Other financial income	0	135	255	653
Total financial income	445	304	773	1 725

Financial expenses	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**
Capitalised interest expenses	0	0	(1)	0
Imputed interest from abandonment provisions	6 944	13 306	30 123	39 601
Interest expenses current liabilities	51	194	0	1 423
Other financial expenses	167	0	0	71
Total financial expenses	7 162	13 499	30 121	41 095
Net financial items discontinued operation	(6 717)	(13 196)	(29 348)	(39 370)
Net financial items	(113 015)	(125 500)	(358 313)	(367 698)

5 Discontinued operation

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

In July 2011 Norwegian Energy Company (Noreco) announced an agreement to sell their share in the Danish oil field Siri. The agreement is approved by the Danish authorities. The due diligence is not yet completed.

In August 2011 Norwegian Energy Company (Noreco) announced an agreement to sell their share in the Norwegian oil field Paleocene Flyndre. Approval is pending from the Norwegian authorities.

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

(NOK 1 000)

Results of discontinued operation	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**	**2010**
Revenue	103 100	254 443	713 954	1 004 841	1 307 838
Production expenses	50 304	93 971	199 975	268 004	360 619
Exploration expenses 1)	942	3 099	4 260	6 392	9 320
Other operating expenses	350	0	702	0	0
Depreciations	17 737	70 679	151 375	261 372	339 656
Writedown	293 051	0	293 051	0	0
Net finance expenses	6 717	13 196	29 348	39 370	40 832
Total Expenses	369 102	180 944	678 711	575 139	750 427
Results from operating activities	**(266 002)**	**73 499**	**35 243**	**429 703**	**557 411**
Income tax	(66 519)	45 818	84 594	238 805	306 831
Results from operating activities, net of tax	**(199 482)**	**27 681**	**(49 351)**	**190 898**	**250 580**
Gain (loss) on sale of discontinued operation	363 302	904 918	(347 638)	904 918	904 918
Income tax on gain (loss) on sale of discontinued operation	(165 916)	(705 836)	388 617	(705 836)	(705 836)
Profit (loss) for the period	(2 096)	226 763	(8 372)	389 980	449 662

(NOK 1 000)

Cash flow from (used in) discontinued operation	**Q3 2011**	**Q3 2010**	**YTD 2011**	**YTD 2010**	**2010**
Net cash used in operating activities	51 854	157 373	509 719	730 445	937 898
Net cash from investing activities	36 584	88 809	170 481	250 615	299 241
Net cash flows for the period	88 438	246 183	680 200	981 060	1 237 139

(NOK 1 000)

Effect of the disposal on the financial position of Noreco	**Q3 2011**
License and capitalised exploration expenses	(26 242)
Deferred tax assets	(77 812)
Goodwill	(288 490)
Production facilities	(1 664 579)
Other current receivables	(27 384)
Deferred tax	465 003
Provisions for other liabilities and charges	276 484
Other current liabilities	28 829
Net assets and liabilities	(1 314 192)
Consideration received, satisfied in cash	318 537
Cash and cash equivalents disposed of	0
Net cash inflow	318 537

6 Intangible fixed assets

(NOK 1 000)	Capitalised exploration & evaluation expenses	Goodwill	Total
Acquisition cost 01.01.11	4 102 534	1 529 098	5 631 632
Additions	385 290	0	385 290
Dry well	(210 824)	0	(210 824)
Disposals	(25 616)	(288 490)	(314 106)
Transfered to asset under construction	(115 163)	0	(115 163)
Reclassified from asset for sale	1 033	11 700	12 733
Reclassified to asset for sale	(12 987)	0	(12 987)
Currency translations	1 004	0	1 004
Acquisition cost 30.09.11	**4 125 272**	**1 252 308**	**5 377 580**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.11	125 700	36 500	162 200
Depreciations	0	0	0
Write-downs (1)	0	284 303	284 303
Accumulated depreciation and write-downs 30.09.11	**125 700**	**320 803**	**446 503**
Book value 30.09.11	**3 999 572**	**931 505**	**4 931 077**

(1) Write down includes NOK 54.3 million relating to Siri and is included in Discontinued operation

7 Tangible non-current assets

(NOK 1 000)	Asset under construction	Production facilities	Machinery and equipment	Total
Acquisition cost 01.01.11	121 787	5 544 383	8 207	5 674 377
Additions	491 738	271 678	0	763 417
Transferred	115 163	0	0	115 163
Disposals	(361 900)	(1 909 365)	0	(2 271 265)
Reclassified from asset for sale	542 526	73 175	0	615 701
Reclassified to asset for sale	(648)	(1 218 085)	0	(1 218 734)
Currency translations	2 475	(43 394)	(9)	(40 928)
Acquisition cost 30.09.11	**911 141**	**2 718 391**	**8 197**	**3 637 730**
Accumulated depreciation				
Accumulated depreciation and write-downs 01.01.11 according to annual report 2010	0	2 065 263	8 099	2 073 362
Adjustments previous years (1)	0	54 138	0	54 138
Accumulated depreciation and write-downs 01.01.11 according to annual report 2010	0	2 119 401	8 099	2 127 500
Depreciation	0	333 869	26	333 895
Disposals	0	(871 168)	0	(871 168)
Write-downs	0	238 748	0	238 748
Reclassified from asset for sale	0	43 310	0	43 310
Reclassified to asset for sale	0	(504 327)	0	(504 327)
Currency translations	0	(22 924)	(1)	(22 925)
Accumulated depreciation 30.09.11	**0**	**1 336 910**	**8 124**	**1 345 034**
Book value at 30.09.11	**911 141**	**1 381 481**	**73**	**2 292 696**

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

8 Assets and liabilities held for sale

In July 2011 Norwegian Energy Company (Noreco) announced an agreement to sell their share in the Danish oil field Siri. The agreement is approved by the Danish authorities. The due diligence is not yet completed.

In August 2011 Norwegian Energy Company (Noreco) announced an agreement to sell their share in the Norwegian oil field Paleocene Flyndre. Approval is pending from the Norwegian authorities.

(NOK 1 000)

Assets held for sale	**Note**	**2011**
License and capitalised exploration expenses	6	12 987
Production facilities	7	475 656
Other current receivables		81 715
Total assets held for sale at 30.09.11		**570 357**
Liabilities held for sale		
Deferred tax		56 401
Provisions for other liabilities and charges		316 871
Other current liabilities		6 338
Total liabilities held for sale at 30.09.11		**379 610**
Total assets and liabilites held for sale at 30.09.11		**190 747**

9 Other current receivables

(NOK 1 000)	**30.09.11**	**30.09.10**
Receivables from operators relating to joint venture licenses	54 654	114 714
Underlift of oil/NGL	28 802	36 467
Financial instruments	29 085	15 699
Other receivables 1) 2)	1 553 907	395 760
Total other current receivables	**1 666 448**	**562 640**

(1) NOK 382 million - estimated compensation from the shut down of the Siri area fields.

(2) NOK 1 100 million - net receivable on Hess, DONG and Danoil from sale of the South Arne field.

10 Interest bearing debt

(NOK 1 000)

Non-current interest bearing debt	**Nominal value**	**Book value at 30.09.11**
Bond loan Noreco ASA (NOR04)	1 179 000	1 165 678
Bond loan Noreco ASA (NOR03)	630 000	624 206
Bond loan Noreco ASA (NOR05)	621 000	615 550
Bond loan Noreco ASA (NOR06/07)	600 000	587 863
Exploration loan Noreco ASA	205 131	194 274
Reserve-based loan Altinex Oil Denmark A/S	934 672	902 953
Total long-term interest bearing debt	**4 169 803**	**4 090 524**

Current interest bearing debt	**Nominal value**	**Book value at 30.09.11**
Convertible bond loan Noreco ASA	218 500	213 010
Exploration loan Noreco ASA	630 869	630 869
Reserve-based loan Altinex Oil Denmark A/S	103 398	103 398
Total short-term interest bearing debt	**952 767**	**947 276**

11 Other current liabilities

(NOK 1 000)	30.09.11	30.09.10
Liabilities to operators relating to joint venture licenses	200 729	213 638
Overlift of oil	5 828	35 425
Accrued interest	52 153	51 710
Other current liabilities	173 263	48 093
Total other current liabilities	**431 973**	**348 866**

12 Segment reporting

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

In each of the geographical segments, Norway, Denmark, UK and France the Group has established subsidiaries.

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

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

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

Geographically distribution as of 30.06.2011

(NOK 1 000)	Norway	Denmark	UK	Other/ elimination	Group
Total revenue	22 179	615 826	-		638 004
Net operating result	(291 009)	(19 400)	(270 095)	(1 908)	(582 413)
Net finance expenses					328 965
Ordinary result before tax					(911 378)
Gain / (Loss) on sale of discontinued operation					(8 372)
Income tax benefit					71 846
Net result for the period					(847 903)
Assets	4 412 325	5 311 270	3 232 230	(1 209 098)	11 746 727
Liabilities	5 078 632	3 012 848	1 977 984	(1 207 166)	8 862 298
Capital expenditures production facilities	32 960	142 993	95 725		271 678
Capital expenditures asset under construction	295 118	59 796	136 824		491 738
Capital expenditures exploration and evaluations	350 731	22 999	11 560		385 289
Depreciations & writedowns	61 082	511 535			572 617

Stavanger, 26 October 2011
The Board of Directors and Chief Executive Officer
Norwegian Energy Company ASA

Ståle Kyllingstad
Chairman

Ole Melberg — *Deputy Chairman*
Eidmund Nygaard — *Board Member*
Shona Grant — *Board Member*
Mona Iren Kolnes — *Board Member*
Hilde Drønen — *Board Member*

Lotte Kjørboe — *Board Member*
Bård Arve Lærum — *Board Member*
Arnstein Wigestrand — *Board Member*

Einar Gjelsvik
CEO

INFORMATION ABOUT NORECO GROUP

Head office Noreco

Mailing address	P.O. Box 550 Sentrum, 4005 Stavanger
Visiting address	Verksgata 1A, Stavanger
Telephone	+47 992 83 900
Internet	www.noreco.com
Organisation number	Register of Business Enterprises NO 987 989 297 MVA

Board of Directors Noreco

Ståle Kyllingstad, Chairman
Ole Melberg, Deputy chairman
Eimund Nygaard
Shona Grant
Mona Iren Kolnes
Arnstein Wigestrand
Hilde Drønen
Lotte Kiørboe
Bård Arve Lærum

Noreco Group management

Einar Gjelsvik	CEO
Rebekka Glasser Herlofsen	CFO
Erik Borg	Deputy CFO
Ellen Sandra Bratland	COO & Vice president HSE
Kjetil Bakken	Vice president Investor Relations
John Bogen	Vice president, Commercial
Lars Fosvold	Vice president, Exploration

Investor Relations

Kjetil Bakken, Vice president Investor Relations
tel. +47 91 889 889, kjb@noreco.com

Rebekka Glasser Herlofsen, CFO
tel. +47 916 60 269, rgh@noreco.com

Financial calendar 2011

17 February	Presentation of Q4 2010 report, Oslo
28 April	Annual General Meeting, Stavanger
05 May	Presentation of Q1 2011 report, Oslo
11 August	Presentation of Q2 2011 report, Oslo
27 October	Presentation of Q3 2011 report, Oslo

Other sources of information

Annual reports
Annual reports for the Noreco Group are available on www.noreco.com

Quarterly publications

Quarterly reports and supplementary information for investors and analysts are available on www.noreco.com. The publications can be ordered by sending an e-mail to av@noreco.com

News releases

To receive releases from Noreco, order a free subscription by sending an e-mail to av@noreco.com or register on www.noreco.com

NORECO

Norwegian Energy Company ASA
Verksgata 1A
P.O. Box 550 Sentrum
4003 Stavanger Norway
Tel: +47 99 28 39 00
Fax: +47 51 53 33 33
www.noreco.com