# Noreco

Third quarter
2010

# Report for the third quarter 2010

Norwegian Energy Company ASA

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## Norwegian Energy Company ASA

The Board and management of Noreco have decided to commence a broad review of its strategic alternatives to enhance shareholder value. The decision reflects a careful consideration of Noreco's current enterprise value as indicated by its stock price relative to its own internal valuation of the asset portfolio. The initiative will examine all possible alternatives, including a sale or merger of the company or sale of assets, in an effort to seek to unlock the potential of Noreco's assets and maximize value to its shareholders.

The company cautions shareholders and other stakeholders that there is no assurance that the strategic review will result in any specific strategic or financial transaction and no timetable has been set for its completion.  Noreco will inform the market on material developments as and when appropriate or required.

Noreco has appointed Bank of America Merrill Lynch and SEB Enskilda AS as financial advisors to assist the company through this process.

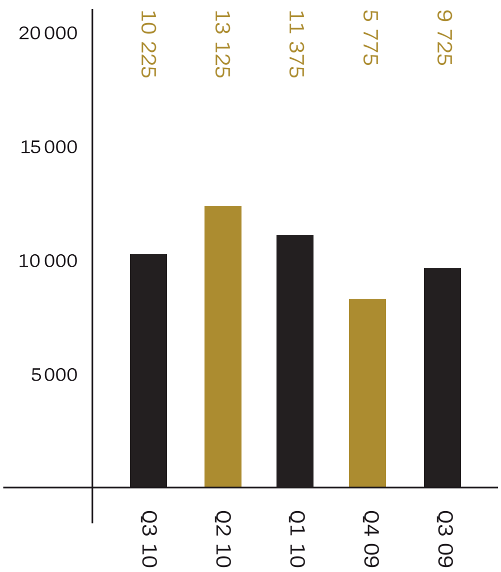
### HIGHLIGHTS

- Gas discovery in Zidane-1 exploration well
- Sale of PL378 with Grosbeak discovery for USD 43 million completed
- Entered agreement to sell Oselvar and Enoch to Marubeni Corporation for USD 43 million
- Huntington development moving towards sanctioning
- Average production in third quarter 2010 was 10,225 boe per day
- Production from Siri area below plan due to facility issues
- Oil price realized at USD 74.4 per boe
- Total revenues of NOK 631 million, EBITDA of NOK 327 million and a net result of NOK 167 million

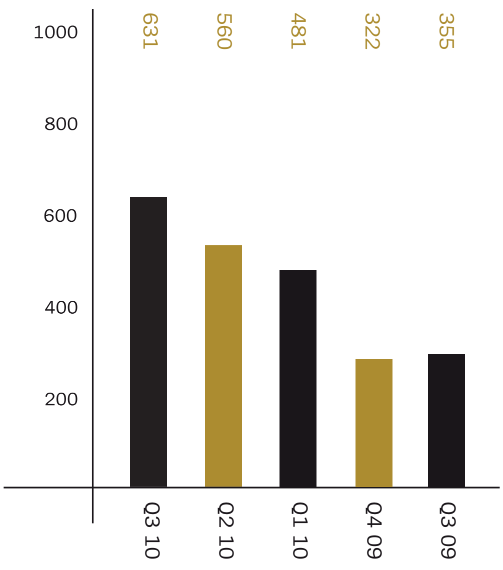
### KEY FIGURES

| | Q310 | Q210 | Q110 | Q409 | Q309 | Q209 |
|---|---|---|---|---|---|---|
| **Net realised oil price** *(USD/boe)* | 74.4 | 75.4 | 74 | 68.5 | 65 | 60 |
| **EBITDA** *(NOK million)* | 327 | 269 | 170 | 134 | -51 | 85 |
| **Net results** *(NOK million)* | 167 | -6 | -21 | -87 | -134 | -101 |
| **Total assets** *(NOK billion)* | 12.6 | 12.4 | 12.2 | 11.9 | 11.8 | 12.2 |

**Production** *(boed)*




**Total revenues** *(NOK million)*



## GROUP FINANCIALS

The Noreco Group had revenues of NOK 432 million in Q3 2010, an increase of 22% compared to third quarter 2009. The increase was driven by higher production and higher oil price achieved. Production in the quarter was 10,225 barrels of oil equivalents per day (boed), up from 9,725 boed for the same period last year. The achieved oil, gas and NGL prices adjusted for the cost and income from the put options expiring in the quarter was USD 74.4 per boe, compared to USD 65.0 per boe in third quarter last year.

Other revenues were NOK 199 million, and are related to gain from the sale of licence PL378. This transaction also generated a positive impact of NOK 50 million in taxes.

Production expenses were NOK 145 million, including NOK 38 million related to the permanent repair solution following the Siri shutdown in 2009/2010. A concept decision on the permanent repair solution is not yet made and no positive effects of insurance coverage related to the permanent repair solution is reflected in the Q3 accounts. We expect to recover most of the cost incurred related to the Siri shutdown, and outstanding insurance recovery as of 30 september 2010 of 340 million included in other current receivables. The amount is reduced with NOK 67 million from the 2nd quarter mainly due to the change in USD to NOK exchange rate. Exploration costs amounted to NOK 90 million, mainly driven by seismic acquisitions. The Zidane-1 exploration well was drilled in Q3. This resulted in a gas discovery, and consequently the drilling cost has been capitalized.

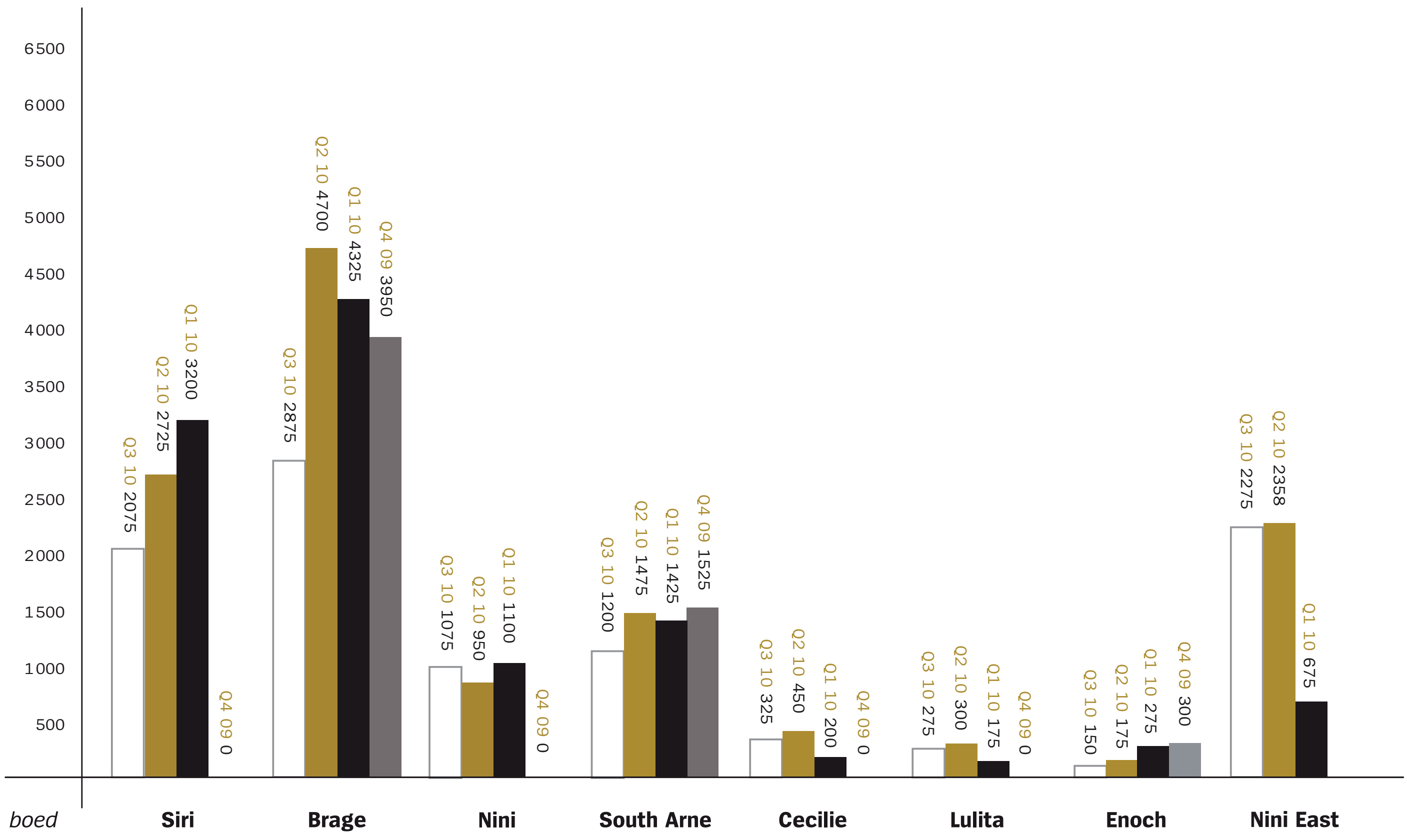
EBITDA (earnings before interests, tax, depreciation and amortization) for Q3 2010 was NOK 327 million, compared to NOK -51 million in Q3 2009. Depreciation amounted to NOK 147 million. Write down of goodwill of NOK 36.5 million are related to licenses held by Altinex Oil Norway.

Net financial items amounted to NOK 126 million for the quarter, of which interest cost amounted to NOK 88 million. Tax for Q3 2010 amounted to NOK -150 million, impacted partly by the tax effect of the PL378 transaction. Net result for the period was NOK 167 million, compared to NOK -134 million in Q3 2009.

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, USD 60 and USD 50 per barrel. Fair value of these put options as of 30 September 2010 was NOK 16 million, recorded as other current receivables in the balance sheet.

## GROUP STUCTURE

Siri Holdings Ltd and Altinex ASA are guarantors for two of the bond loans issued by Noreco (Nor 03 and Nor 04). Siri Holdings Ltd's only purpose is to hold part of Noreco's ownership in the Siri license, and the description herein related to the Siri field is therefore of key importance for Siri Holdings Ltd. 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 that 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 similarly to Altinex ASA.

## PRODUCING FIELDS

The Noreco Group's production for Q3 2010 was on average 10,225 barrels of oil equivalents per day (boed). The graph on page 3 shows the net production to Noreco from each of the eight producing fields in the portfolio.

Production is lower than forecast due to shut-in of the SCB-1 well and continued operational constraints at the Siri field, and also reduced operating efficiency at the Brage field.

The average gross production from the **Brage field** (Noreco 12.26/13.2%) in third quarter was approximately 22,800 boed. Brage has been running at reduced operating efficiency in the quarter, mainly due to problems with gas compression. The gas compressor was repaired during a shut down from 22 September to 3 October, after which production from high gas production wells has been restored. Increased water production from the Bowmore segment was observed towards the end of the second quarter, and has continued to increase as expected in the third quarter. A new Fensfjord oil producer is expected to be completed in the fourth quarter.

The **Enoch field** (Noreco 4.4%) had average gross production in third quarter of approximately 3,575 boed. Noreco has sold its interest in Enoch to Marubeni Corporation with effective date 1.1.2010, subject to approval by Norwegian authorities.

Gross production from the **Siri area fields** (Siri 50%, Nini East 30%, Nini 30% and Cecilie 61%) averaged 15,850 boed in the third quarter. Production has been below plan due to limitations in the gas handling capacity at the Siri platform and the shut-in of the SCB-1 production well. During a planned maintenance stop in June, the low pressure bundle of a centrifugal compressor on Siri was replaced. Flare gas levels and lift gas availability have since improved. However, a complete revamp of the compressor is necessary to restore full production capacity, and the plan is to perform this upgrade in January 2011. The production at Siri has also been reduced since late April as the SCB-1 subsea well has been shut-in awaiting repair of the subsea safety valve. Operations are ongoing to repair the valve and restore full functionality prior to restart of production from the well.

On the **South Arne field** (Noreco 6.56%) the average gross production in third quarter was approximately 18,150 boed. The lower production in the quarter is attributed to reduced water injection during the drilling campaign as well as reduced well maintenance activity, with the drilling rig preventing coil tubing clean-out and well configuration operations at the South Arne platform. At the end of the third quarter two new horizontal production wells was completed, while the acid stimulation of the wells are in progress. Production start up of the two wells are expected  in November. For the South Arne Phase III development project, the Field Development Plan (FDP) was approved by the Danish authorities in September. The FDP comprises drilling and completion of 11 new producers and injectors as well as installation of two new unmanned wellhead platforms and interfield pipelines controlled from the Central South Arne processing and export platform. Final sanction of the project is expected during the fourth quarter.

On the **Lulita** field (Noreco 28.2%) the average gross production was stable except for planned maintenance and upgrade operations on the host platform Harald. The average gross production was 975 boed in third quarter with shut-in periods mostly counterbalanced by flush production and periods with higher than expected production.

## DEVELOPMENTS AND DISCOVERIES

Noreco is a 20% partner in the **Huntington** development in the UK. The field is operated by E.ON Ruhrgas UK. In the third quarter E.ON Ruhrgas and Sevan Marine ASA finalized the commercial negotiations for the lease of the FPSO Sevan Voyageur for operation on the Huntington field. Additional contracts required for the development will be signed and a final field development plan will be submitted to UK authorities after the project is sanctioned by the license partners (expected in the fourth quarter).

Noreco owns 15% of the Dong operated **Oselvar** field. The field is currently being developed, with first oil expected in 4Q 2011. Noreco has sold its interest in Oselvar to Marubeni Corporation with effective date 1.1.2010, subject to approval by Norwegian authorities.

The **Nemo** discovery in PL148 is progressing towards a potential sanctioning of the project in the fourth quarter. The concept is a subsea tie-back to the Pierce field (Shell) in the UKCS. Tenders for the subsea and pipeline scope have been received and are being evaluated. Based on the selected concept and the current project schedule, production start is planned for 2012. Noreco owns 20% of the license, and Lundin Norway is the operator.

Statoil is operator for the **Gygrid** discovery in PL348, and is pursuing a development option comprising of a subsea tieback to the Statoil operated Njord field. New seismic processing is also underway to map the further exploration potential in the license. Plan for Development and Operations (PDO) will be submitted to Norwegian authorities in 2011, and production startup is scheduled for 2012/2013. Noreco owns 17.5% of the license.

At the **Gita** discovery in Denmark (Noreco 12%), a seismic re-processing campaign, involving four different surveys and aiming at pre-stack depth migration to improve depth imaging is underway. This will reduce depth uncertainty and give a better foundation for placing appraisal wells. Noreco's target is to continue planning appraisal wells and drill at least one appraisal well in 2011.

## EXPLORATION

The exploration activity in the third quarter focused on the Zidane 1 well in PL435, in addition to the APA 2010 application and the completion of four seismic surveys. The Zidane 1 well spudded in June and discovered dry gas in the Middle Jurassic Fangst Group target. The well found a 150 m gas column and preliminary base case resource estimates are 460 BCF. The well was tested and a stable rate of approximately 37 mmscf/day was obtained. Preliminary analyses of this test and other well data suggest good reservoir properties. The PL435 license partners are now planning to drill the Zidane 2 prospect in 2011, and this prospect, which is in the same play as the Zidane 1 discovery, was significantly de-risked by the Zidane 1 result.

Noreco's remaining exploration program for 2010 includes the ongoing PL392 Dalsnuten and PL400 Barchan wells and the Noreco-operated PL545 Svaneøgle well which is expected to spud early December. The PL392 Dalsnuten well is the result of a recent farm-in. Four seismic acquisition campaigns – on PL484, PL520, PL525, and PL562 – were all completed on time and within budget. Data processing is underway on all four surveys.

Noreco is firming up an extensive exploration program for 2011 and beyond through maturation of the existing portfolio as well as business development activity. In addition to the PL392 Dalsnuten farm-in Noreco also recently farmed into PL434 where the Ronaldo prospect is expected to be drilled early next year.

## BUSINESS DEVELOPMENT

In addition to access to opportunies through licensing rounds, Noreco is actively pursuing business development activities to help build the exploration drilling program and manage the overall risk profile of the exploration portfolio. In the third quarter Noreco farmed into PL392 containing the Dalsnuten prospect and PL434 containing the Ronaldo prospect. Both prospects represent near-term exposure to significant resource potential.

Noreco's strategy is to monetize discoveries either through development and production, or through asset divestments where the value of the discoveries can be realized earlier and reinvested in new exploration. In July Noreco sold PL378 containing the Grosbeak discovery to Talisman Energy Norge AS for a consideration of USD 43 million. The transaction was approved by Norwegian authorities and completed in the third quarter.

In September Noreco entered an agreement to sell its shares in PL274/PL274CS containing the Oselvar development and PL048D with the Enoch field to Marubeni Corporation for a total consideration of USD 43 million. Effective date for the transaction will be 01.01.2010 and Noreco expects to receive approximately USD 33 million net in the pro et contra settlement in addition to the sales price. The transaction is subject to approval by Norwegian authorities.

## HEALTH, SAFETY AND ENVIRONMENT

There were no incidents in Noreco operated activities in third quarter 2010.

As part of the preparations for the Noreco operated exploration well Svaneøgle in license PL545 and application for consent to drill, Noreco's emergency preparedness organization was audited by the Petroleum Safety Authorities. As a result Noreco received positive feedback regarding competence and robustness in its emergency preparedness organization. The HSE preparations for this Noreco operated well are finalized and consents from the authorities have been received. The company is now maintaining the follow up and emergency preparedness systems while waiting for the drilling unit to be made available.

## HUMAN RESOURCES

Noreco has significantly increased its competence base by recruiting 29 highly qualified people so far this year. Today Noreco has 99 employees and 26 consultants. New employees with a signed contract will be joining in the fourth quarter and the expected headcount at the end of the year is 101. Professionals are hired according to business needs. The size of the workforce reflects the necessary capacity to deliver value creation from existing assets and to carry through the planned exploration activities ahead.

Noreco has a stable workforce with less than 1% turnover in the last three years. 32% of the employees are female, and 12 nationalities are represented in the workforce (Norwegian, Danish, American, English, Scottish, Finnish, French, Mexican, Turkish, Pakistani, Irish and Polish).

# Income statement

## Statement of comprehensive income

| All figures in NOK 1000 | Note | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 | 2009 |
|---|---|---|---|---|---|---|
| Revenue | 1 | 431 529 | 355 085 | 1 435 528 | 1 224 557 | 1 431 203 |
| Other revenue | 1 | 199 082 | 0 | 236 552 | 0 | 115 313 |
| Total revenues | 1 | 630 611 | 355 085 | 1 672 081 | 1 224 557 | 1 546 516 |
| Production expenses | 2 | 144 575 | 120 282 | 397 384 | 351 039 | 451 981 |
| Exploration and evaluation expenses | 3 | 90 004 | 179 578 | 312 596 | 490 402 | 525 054 |
| Payroll expenses | | 42 074 | 22 129 | 112 538 | 95 148 | 125 687 |
| Other operating expenses | | 27 265 | 28 049 | 84 183 | 81 826 | 103 572 |
| Loss on sale of licenses | | 0 | 55 594 | 0 | 55 594 | 55 594 |
| Total operating expenses | | 303 918 | 405 632 | 906 701 | 1 074 009 | 1 261 888 |
| **Operating results before depreciation and amortization (EBITDA)** | | **326 693** | **-50 547** | **765 380** | **150 548** | **284 628** |
| Depreciation | 6 | 147 314 | 119 965 | 457 646 | 443 030 | 514 026 |
| Write-downs | 5 | 36 500 | 0 | 36 500 | 125 700 | 125 700 |
| **Net operating result (EBIT)** | | **142 879** | **-170 512** | **271 234** | **-418 182** | **-355 098** |
| Net financial items | 4 | -125 500 | -155 872 | -367 698 | -369 856 | -580 774 |
| **Ordinary result before tax (EBT)** | | **17 379** | **-326 384** | **-96 464** | **-788 038** | **-935 872** |
| Income tax expenses | | -149 714 | -192 250 | -236 364 | -506 866 | -567 883 |
| **Net result for the period** | | **167 093** | **-134 134** | **139 900** | **-281 172** | **-367 989** |
| Net result for the period | | 167 093 | -134 134 | 139 900 | -281 172 | -367 989 |
| Other comprehensive income: | | | | | | |
| Value adjusted financial instruments | | -14 067 | 13 922 | -23 531 | -240 418 | -285 913 |
| Currency translation difference | | -69 806 | -896 | 4 078 | -67 894 | -55 505 |
| Total comprehensive net result for the period | | 83 220 | -121 108 | 120 447 | -589 484 | -709 407 |
| Earnings per share | | | | | | |
| Basic | | 0,69 | -0,85 | 0,58 | -1,87 | -2,17 |
| Diluted | | 0,67 | -0,85 | 0,57 | -1,87 | -2,17 |

# Balance sheet

## Statement of financial position

| All figures in NOK 1000 | Note | 30-09-10 | 31-12-09 | 30-09-09 |
|---|---|---|---|---|
| Non-current assets | | | | |
| License and capitalised exploration expenses | 5 | 3 959 631 | 3 849 233 | 4 327 577 |
| Deferred tax assets | | 504 362 | 429 521 | 308 476 |
| Goodwill | 5 | 1 504 298 | 1 540 798 | 1 540 798 |
| Production facilities | 6 | 4 170 190 | 4 099 708 | 3 652 313 |
| Tax refund | | 450 593 | 0 | 571 963 |
| **Total non-current assets** | | **10 589 075** | **9 919 260** | **10 401 127** |
| | | | | |
| Current assets | | | | |
| Accounts receivable | | 158 492 | 133 619 | 115 884 |
| Tax refund | | 638 041 | 631 261 | 542 644 |
| Other current receivables | 7 | 562 640 | 504 247 | 306 474 |
| Bank deposits, cash and cash equivalents | | 672 779 | 659 812 | 436 065 |
| **Total current assets** | | **2 031 952** | **1 928 939** | **1 401 067** |
| **Total assets** | | **12 621 027** | **11 848 199** | **11 802 194** |
| | | | | |
| Equity | | | | |
| Share capital | | 753 418 | 751 545 | 487 534 |
| Other equity | | 3 110 985 | 2 970 678 | 2 136 403 |
| **Total equity** | | **3 864 403** | **3 722 223** | **2 623 937** |
| | | | | |
| Provisions and other non-current liabilities | | | | |
| Deferred tax | | 2 531 181 | 2 495 232 | 2 567 103 |
| Provisions for other liabilities and charges | | 806 944 | 739 202 | 774 920 |
| Convertible bond loan | 8 | 203 598 | 196 539 | 194 186 |
| Bond loan | 8 | 1 970 235 | 2 261 391 | 1 511 157 |
| Other interest bearing debt | 8 | 1 411 773 | 1 026 595 | 1 651 408 |
| **Total provisions and other non-current liabilities** | | **6 923 731** | **6 718 959** | **6 698 774** |
| | | | | |
| Current liabilities | | | | |
| Other interest bearing debt | 8 | 1 125 512 | 906 957 | 1 700 029 |
| Trade payables | | 35 260 | 35 943 | 12 843 |
| Current tax payable | | 277 980 | 208 543 | 420 007 |
| Public duties payable | | 45 275 | 34 285 | 30 794 |
| Other current liabilities | 9 | 348 866 | 221 288 | 315 809 |
| **Total current liabilities** | | **1 832 893** | **1 407 016** | **2 479 482** |
| | | | | |
| **Total liabilities** | | **8 756 624** | **8 125 975** | **9 178 256** |
| **Total equity and liabilities** | | **12 621 027** | **11 848 199** | **11 802 194** |

# Statement of cash flow

| All figures in NOK 1000 | YTD 2010 | YTD 2009 |
|---|---|---|
| Ordinary result before tax | -96 464 | -788 035 |
| Tax paid | -182 886 | -282 154 |
| Depreciation | 457 646 | 443 029 |
| Write-downs | 115 155 | 125 700 |
| (Gain)/Loss on sale of licenses | -199 082 | 55 594 |
| Effect of changes in exchange rates/other effects equity | -18 150 | -469 165 |
| Financial instruments at fair value | 35 553 | 416 113 |
| Amortisation of borrowing expenses | 29 723 | 49 709 |
| Calculated interest on abandonment provision | 59 981 | 51 465 |
| Other items with no cash impact | 3 000 | 3 000 |
| Changes in trade receivable | -24 873 | 103 604 |
| Changes in trade payables | -683 | -125 215 |
| Changes in other current balance sheet items | 321 935 | 442 679 |
| **Net cash flow from operations** | **500 855** | **26 324** |
| | | |
| **Cash flows from investing activities** | | |
| Proceeds from sale of intangible fixed assets | 265 545 | 27 272 |
| Purchase of tangible assets | -509 996 | -705 644 |
| Purchase of intangible assets | -251 448 | -189 255 |
| **Net cash flow from investing activities** | **-495 899** | **-867 627** |
| | | |
| **Cash flows from financing activities** | | |
| Issue of share capital | 11 322 | 211 040 |
| Proceeds from issuance of long term debt | 353 834 | 616 615 |
| Repayment of short term debt | -79 292 | -52 374 |
| Interest paid | -278 213 | -341 983 |
| Net cash flow from (used in) financing activities | 7 651 | 433 298 |
| | | |
| **Net change in cash and cash equivalents** | **12 607** | **-408 005** |
| **Cash and cash equivalents at start of the year** | 659 812 | 867 349 |
| Effects of changes in exchange rates on cash and cash equivalents | 360 | -23 280 |
| **Cash and cash equivalents at end of the quarter** | **672 779** | **436 065** |

# Statement of changes in equity

| All figures in NOK 1000 | 30-09-10 | 31-12-09 | 30-09-09 |
|---|---|---|---|
| Equity at the beginning of period | 3 722 223 | 2 996 486 | 2 996 486 |
| Capital increase | 11 322 | 1 427 268 | 211 040 |
| Share-based incentive program | 10 411 | 7 855 | 5 894 |
| Value adjusted financial instruments | -23 531 | -285 913 | -240 418 |
| Translation differences foreign exchange | 4 078 | -55 485 | -67 894 |
| Net results for the period | 139 900 | -367 989 | -281 172 |
| **Equity at the end of period** | **3 864 403** | **3 722 223** | **2 623 937** |

# Notes

to the quarterly consolidated financial statements

## ACCOUNTING PRINCIPLES

**Basis for preparation**
The consolidated interim financial statements for the third quarter of 2010 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.

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 2009 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**
The Groups share capital as per 30.09.2010 is NOK 753,4 million unchanged from 30.06.2010.

**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.

**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 will be 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% in Denmark and 28 % in Norway and United Kingdom. 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 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 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.

**Subsequent events**
Noreco announced on 29 September 2010 that the company has entered into an agreement to sell its shares in the Norwegian oil fields Oselvar and Enoch to Marubeni Corporation for a consideration (after tax) of USD 43 million. Noreco expects to report a net gain on this transaction in Q4 2010 of approximately USD 5 million when the deal is completed. The transaction is subject to approval by Norwegian authorities.

# 1 Revenue

| (NOK 1 000) | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Sale of oil | 426 838 | 336 865 | 1 410 804 | 1 048 301 |
| Sale of gas and NGL | 11 666 | 12 315 | 41 906 | 49 928 |
| Revenue from oil price hedging | 0 | 12 329 | 896 | 148 479 |
| Cost from oil price hedging 1) | -6 975 | -6 424 | -18 078 | -22 150 |
| Other revenue | 199 082 | 0 | 236 552 | 0 |
| Total revenue | 630 611 | 355 085 | 1 672 081 | 1 224 557 |

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 Production expenses

| (NOK 1 000) | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Direct production expenses | 116 529 | 97 564 | 309 182 | 272 797 |
| Duties, tariffs, royalties | 19 767 | 14 983 | 63 490 | 52 480 |
| Other expenses | 8 279 | 7 735 | 24 711 | 25 763 |
| Total production expenses | 144 575 | 120 282 | 397 384 | 351 039 |

# 3 Exploration and evaluation costs

| (NOK 1 000) | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Acquisition of seismic data, analysis and general G&G costs | 61 205 | 148 392 | 178 420 | 438 687 |
| Exploration wells capitalised in previous years | 0 | 6 537 | 7 519 | 6 537 |
| Dry exploration wells this period | -155 | 0 | 71 136 | 0 |
| Other exploration and evaluation costs | 28 954 | 24 649 | 55 521 | 45 179 |
| Total exploration and evaluation costs | 90 004 | 179 578 | 312 596 | 490 402 |

Specification of cash flow concerning exploration and evaluation activities

| (NOK 1 000) | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Exploration and evaluation costs capitalised as intangible assets this period | 124 315 | -14 505 | 180 312 | 189 255 |
| Exploration and evaluation costs directly expensed this period | 90 004 | 173 042 | 305 077 | 483 866 |
| Amount invested in exploration and evaluation activities this period | 214 319 | 158 537 | 485 389 | 673 122 |

# 4 Financial income and expenses

(NOK 1 000)

| Financial income | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Interest income | 1 413 | 2 729 | 6 386 | 8 333 |
| Other financial income | 26 538 | 30 272 | 45 978 | 105 326 |
| Total financial income | 27 950 | 33 002 | 52 364 | 113 660 |

| Financial expenses | Q3 - 10 | Q3 - 09 | YTD 2010 | YTD 2009 |
|---|---|---|---|---|
| Interest expense from bond loans | 67 537 | 67 606 | 202 456 | 203 452 |
| Interest expense from convertible loan | 3 278 | 3 278 | 9 833 | 9 833 |
| Interest expense from other non-current liabilities | 12 646 | 12 848 | 36 996 | 38 783 |
| Interest expense from exploration loan | 10 147 | 8 746 | 25 960 | 20 994 |
| Capitalised interest expenses | -5 245 | 0 | -12 864 | 0 |
| Amortisation from loan costs | 10 482 | 19 095 | 29 723 | 49 709 |
| Imputed interest from abandonment provisions | 20 182 | 16 389 | 59 981 | 51 465 |
| Interest expenses current liabilities | 430 | 283 | 2 209 | 1 459 |
| Other financial expenses | 33 993 | 60 629 | 65 767 | 107 823 |
| Total financial expenses | 153 450 | 188 874 | 420 062 | 483 517 |

| | | | | |
|---|---|---|---|---|
| Net financial items | -125 500 | -155 872 | -367 698 | -369 856 |

# 5 Intangible fixed assets

| (NOK 1 000) | Capitalised exploration and evaluation expenses | Goodwill | Total |
|---|---|---|---|
| Acquisition cost 01.01.10 | 3 974 933 | 1 540 798 | 5 515 731 |
| Additions | 251 448 | 0 | 251 448 |
| Dry wells | -78 655 | 0 | -78 655 |
| Disposals | -65 926 | 0 | -65 926 |
| Currency translations | 3 532 | 0 | 3 532 |
| **Acquisition cost 30.09.10** | **4 085 331** | **1 540 798** | **5 626 129** |
| | | | |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.10 | 125 700 | 0 | 125 700 |
| Depreciations | 0 | 0 | 0 |
| Write-downs | 0 | 36 500 | 36 500 |
| **Accumulated depreciation and write-downs 30.09.10** | **125 700** | **36 500** | **162 200** |
| | | | |
| **Book value 30.09.10** | **3 959 631** | **1 504 298** | **5 463 929** |

# 6 Tangible non-current assets

| (NOK 1 000) | Asset under construction | Production facilities | Machinery and equipment | Total |
|---|---|---|---|---|
| Acquisition cost 01.01.10 | 1 232 223 | 4 330 263 | 8 200 | 5 570 686 |
| Additions | 222 525 | 287 471 | 0 | 509 996 |
| Transferred | -861 180 | 861 180 | 0 | 0 |
| Currency translations | 4 183 | 12 800 | 5 | 16 987 |
| **Acquisition cost 30.09.10** | **597 751** | **5 491 714** | **8 205** | **6 097 669** |
| | | | | |
| **Accumulated depreciation and write-downs** | | | | |
| Accumulated depreciation and write-downs 01.01.10 | 0 | 1 463 434 | 7 550 | 1 470 984 |
| Depreciation | 0 | 457 136 | 510 | 457 646 |
| Currency translations | 0 | -1 151 | 0 | -1 151 |
| **Accumulated depreciation and write-downs 30.09.10** | **0** | **1 919 419** | **8 060** | **1 927 479** |
| | | | | |
| **Book value at 30.09.10** | **597 751** | **3 572 295** | **144** | **4 170 190** |

# 7 Other current receivables

| (NOK 1 000) | 30-09-10 | 30-09-09 |
|---|---|---|
| Receivables from operators relating to joint venture licenses | 114 714 | 83 433 |
| Underlift of oil/NGL | 36 467 | 41 868 |
| Financial instruments | 15 699 | 130 557 |
| Other receivables 1) | 395 760 | 50 616 |
| **Total other current receivables** | **562 040** | **306 474** |

1) mNok 340 - estimated compensation from the shut down of the Siri area fields.

# 8 Interest bearing debt

| (NOK 1 000)<br>**Non-current interest bearing debt** | Nominal value | Book value at 30.09.10 |
|---|---|---|
| Bond loan Noreco ASA | 1 250 000 | 1 230 376 |
| Bond loan Noreco ASA | 750 000 | 739 859 |
| Convertible bond loan Noreco ASA | 218 500 | 203 598 |
| Exploration loan Noreco ASA | 375 755 | 375 755 |
| Reserve-based loan Altinex Oil Denmark A/S | 1 076 564 | 1 036 018 |
| **Total long-term interest bearing debt** | **3 670 819** | **3 585 606** |

| **Current interest bearing debt** | Nominal value | Book value at 30.09.10 |
|---|---|---|
| Exploration loan Noreco ASA | 535 245 | 530 661 |
| Bond loan Altinex Oil Norway AS | 300 000 | 299 438 |
| Reserve-based loan Altinex Oil Denmark A/S | 295 413 | 295 413 |
| **Total short-term interest bearing debt** | **1 130 657** | **1 125 512** |

# 9 Other current liabilities

| (NOK 1 000) | 30-09-10 | 30-09-09 |
|---|---|---|
| Liabilities to operators relating to joint venture licenses | 213 638 | 149 412 |
| Overlift of oil | 35 425 | 12 468 |
| Accrued interest | 51 710 | 80 580 |
| Other current liabilities | 48 093 | 73 350 |
| **Total other current liabilities** | **348 866** | **315 809** |

# 10 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 and UK 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 30.09.2010**

| (NOK 1 000) | Norway | Denmark | UK | Other/ elimination | Group |
|---|---|---|---|---|---|
| Total revenue | 712 416 | 959 665 | - | | 1 672 081 |
| Net operating result | 30 697 | 259 866 | (19 330) | | 271 234 |
| Net financial items | | | | | (367 698) |
| Ordinary result before tax | | | | | -96 464 |
| Income tax expenses | | | | | -236 364 |
| Net result for the period | | | | | 139 900 |
| Assets | 5 010 631 | 5 417 266 | 3 177 275 | (984 144) | 12 621 027 |
| Liabilities | 5 081 001 | 2 876 598 | 1 783 168 | (984 144) | 8 756 624 |
| Capital expenditures production facilities | 96 978 | 190 494 | | | 287 471 |
| Capital expenditures asset under construction | 176 198 | 721 | 45 606 | | 222 525 |
| Capital expenditures exploration and evaluations | 248 932 | 2 516 | | | 251 448 |
| Depreciations and write-downs | 144 999 | 349 146 | | | 494 146 |

**Geographically distribution as of 30.09.2009**

| (NOK 1 000) | Norway | Denmark | UK | Other/ elimination | Group |
|---|---|---|---|---|---|
| Total revenue | 433 324 | 577 938 | 213 295 | | 1 224 557 |
| Net operating result | (570 679) | 136 734 | 15 764 | | (418 181) |
| Net financial items | | | | | (369 856) |
| Ordinary result before tax | | | | | (788 038) |
| Income tax expenses | | | | | (506 866) |
| Net result for the period | | | | | (281 172) |
| Assets | 4 742 153 | 4 893 157 | 3 727 341 | (1 560 458) | 11 802 194 |
| Liabilities | 5 802 332 | 3 095 186 | 1 841 197 | (1 560 458) | 9 178 256 |
| Capital expenditures production facilities | 75 405 | 346 310 | | | 421 715 |
| Capital expenditures asset under construction | 46 908 | 219 034 | 17 987 | | 283 929 |
| Capital expenditures exploration and evaluations | 128 895 | 60 360 | | | 189 255 |
| Depreciations and write-downs | 235 739 | 238 655 | 94 337 | - | 568 730 |

*Stavanger, 28 October 2010*
*The Board of Directors and Chief Executive Officer*
*Norwegian Energy Company ASA*

*Lars Takla*
*Chairman*

*Rebekka Herlofsen* — *Board Member*
*Therese Log Bergjord* — *Board Member*
*John Hogan* — *Board Member*
*Aasulv Tvetereld* — *Board Member*
*Ellen Sandra Bratland* — *Board Member*
*Bård Arve Lærum* — *Board Member*

*Scott Kerr*
*CEO*

## INFORMATION ABOUT NORECO GROUP

**Head office Noreco**

| | |
|---|---|
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| Visiting address | Nykirkebakken 2, 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**

Lars Takla, chairman
Aasulv Tveitereid
Rebekka Herlofsen
John Hogan
Therese Log Bergjord
Ellen Sandra Bratland
Bård Arve Lærum

**Noreco Group management**

| | |
|---|---|
| Scott Kerr | CEO |
| Einar Gjelsvik | COO |
| Jan Nagell | CFO |
| Rune Martinsen | Vice President Stategy & Investor Relations |
| Thor Arne Olsen | Vice president, Commercial |
| Lars Fosvold | Vice president, Exploration |
| Stig Frøysland | Vice president, HSE/HR |
| Birte Borrevik | Vice president, Projects & Drilling |

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Tone K. Skartveit
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**Financial calendar 2011**

| | |
|---|---|
| 17 February 2011 | Presentation of Q4 2010 report, Oslo |
| 28 April 2011 | Presentation of Q1 2011 report, Oslo |
| 05 May 2011 | Annual General Meeting, Stavanger |
| 04 August 2011 | Presentation of Q2 2011 report, Oslo |
| 27 October 2011 | Presentation of Q3 2011 report, Oslo |

**Other sources of information**

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

**Quarterly publications**

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

**News releases**

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

FASETT

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