



**NORECO**



**Report for third quarter 2007  
Norwegian Energy Company ASA**



## Highlights

- Noreco Group's had operating revenues of 392 MNOK, earnings before interests, tax, depreciation and amortization (EBITDA) of 120 MNOK and a net result after finance and tax of -100 MNOK.
- Production of 10,350 boed realized at an average price of 72 \$/boe in the quarter
- Acquisition of Altinex ASA completed
- Rig contract for the semi submersible drilling rig West Alpha secured
- Appraisal drilling programme on the Huntington discovery commenced
- Extensive application submitted in the APA 2007 licensing round
- Disposal of non-core assets provided a focused North Sea E&P portfolio
- Oslo Børs listing process

## Operations

### Production and fields

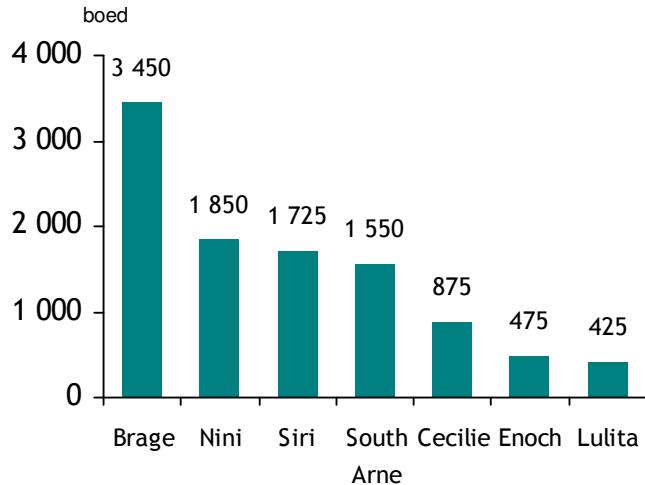
The Noreco Group's production for Q3 2007 was on average 10,350 barrels of oil equivalents per day (boed). The graph shows the net production from each of the seven fields in the portfolio.

Brage well A-40 was successfully completed in early September as part of the Brage drilling campaign. The well was completed with a more than 2000 meter long horizontal section in the Sognefjord Formation. The initial production from the well was more than 5000 boed (600 boed net to Noreco). Drilling of the first production well to the Bowmore prospect is ongoing, and the well is expected to be completed in 1Q 2008. Brage production in 3Q has been above prognosis for 3Q and for the year, due to good production from new wells and optimization of field production.

Enoch production is according to prognosis for 3Q and for the full year.

On the South Arne field the ENSCO 102 rig finished the drilling of the 2 infill wells in September. Water injection has commenced in the first well. The second well, the producer, did not reach its full planned extension and had to be completed with a broken drill string in the reservoir. Initial production from the uncompleted well was 2-3000 barrels per day. Following clean up, completion and stimulation during 4Q 2007 full production is expected from the well from 1Q 2008.

On the South Arne Northern Extension (SANE) a postponement of project sanction to end 2008 is now foreseen. The subsurface aspects are well understood, but further clarification is needed with regard to optimal drilling of the SANE wells as well as the structural integrity of the lattice tower potentially carrying the tie-in of SANE to the South Arne Platform.





On the Siri field the infill drilling campaign is still awaiting the arrival of the ENSCO-70 jack-up rig, now expected in first half of December 2007. The leak in the water injection pipeline from Siri to Stine Segment 1/Nini has been repaired and, following some bad weather causing delays, water injection is expected to resume in late November. Following an extensive measuring program a decision is expected by end January 2008 on possible further remedies, which could include a total renewal of the pipeline

On the Nini field the production well to the virgin reservoir Ty commenced producing in August at a level of 9-10.000 barrels per day, which was higher than the pre-drill expectation. A Field Development Plan for a possible development of Nini East has been prepared. This assumes an unmanned wellhead platform tied in via Nini to Siri. Further progress awaits a.o. commercial agreement with Siri on tie-in conditions.

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

### Exploration and appraisal

Activities during Q3 2007 have focused on the appraisal drilling programme of two discoveries.

Noreco is a 20% partner in the discovery 22/14b-5 Huntington in UK licence 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. Appraisal drilling on the Huntington discovery is ongoing with appraisal well 22/14b-6. The well objective is to do a full appraisal of the Paleocene Forties Formation. The Forties Formation has been appraised with a total of 8 sidetracks providing valuable information about the extent and quality of the Forties reservoir. Test decision is pending final log results of the last sidetrack. The current plan is to spud a Fulmar appraisal well immediately following the current appraisal well.

The Oselvar discovery (1/3-6) is presently being appraised with Well 1/3-10S. Noreco acquired 15% of this PL 274 earlier this year. DONG is operator (40%) and PA Resources and Revus own 30% and 15% respectively. The aim of the appraisal well is to establish the fluid contacts and the connectivity within the Paleocene reservoir. A successful well will initiate development planning of the discovery.

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

Noreco has filed an extensive application for new licenses in APA 2007, covering several blocks in the North Sea, Norwegian Sea and Barents Sea. Applications were made in several partnership groups, both as operator and partner. Announcement of the results are assumed late 2007 or early 2008.

The government has requested the companies to nominate blocks for inclusion into the 20<sup>th</sup> Round, announced to take place during 2008. The nominations, mainly to take place in the Norwegian and Barents Seas, are being prepared.

### Growth and business development

Noreco put forward a mandatory offer for all shares not already held by Noreco in Altinex ASA on 23 July 2007. The offer was open for acceptance through 20 August. Following the mandatory offer, Noreco owned approximately 97% of the shares, and consequently performed a squeeze out of the remaining shareholders 29 August whereby Noreco owned 100% of the shares.



In parallel with the Altinex transaction, Noreco has been very active in the acquisition market:

- Acquisition of a 15% interest in Norwegian license PL274 (Oselvar) from Revus completed in September
- Acquisition of a 10% interest in Norwegian license PL256 from Dong completed in September
- Acquisition of a 35% interest in Norwegian License PL316CS from Talisman completed in September

Noreco has also initiated disposals of non-core assets in Q3. These processes have now been concluded

- 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 October 2007

Noreco now holds a focused North Sea E&P portfolio, which forms a good base to grow the business further.

### Drilling and projects

On September 3., Noreco signed, as part of a rig consortium a 3 year contract on the drilling unit West Alpha. The rig contract will commence on February 22 2009 and Noreco has committed to 180 days of the contract duration. Noreco will have the second slot on the West Alpha starting Q2 2009.

To further strengthen the company's capabilities within drilling and completion and prepare for Noreco's first operated well in Norway, two new senior drilling staff each with more than 25 years of experience in Norway and internationally have been recruited.

### HSE and personnel

There have been no injuries or lost time incidents in Noreco's operated activities in Q3.

Noreco has successfully finished the integration process with Altinex ASA. The Audit "Ready for Day 1" concluded that laws, authority rules and regulations are met. It is the opinion of the external Audit team that all requirements in the relevant internal management documents of Noreco are complied with. The employees are satisfied with the integration process.

The Management System of Noreco is being reviewed and adequate elements from both companies are being updated and implemented. The organization has been initially trained and informed in these updates.

Noreco now have more than 60, well qualified and experienced employees. Noreco will continue to recruit personnel and encourage diversity both with regards to gender and experience.

Stavanger, 22 November 2007  
The Board of Directors of Norwegian Energy Company ASA



## IFRS consolidated figures

The Noreco Group reported third quarter 2007 operating revenues of MNOK 392.0 and earnings before interests, tax, depreciation and amortization (EBITDA) of MNOK 120.3. Net result after finance and tax was MNOK - 100.4. The achieved oil, gas and NGL prices adjusted for the cost of put-options expiring in the same period was USD 71.72/boe.

In the third quarter, producing assets are depreciated with MNOK 134.2. Exploration costs are directly expensed with MNOK 95.8.

Net financials in the third quarter was MNOK - 159.6. This figure includes interest expenses of MNOK 144.5 and net exchange loss of MNOK 7.9. All external loans in foreign currency are fully hedged.

At the end of third quarter, Noreco has oil price hedging instruments in place, which secure a major part of expected production volume against oil prices below USD 50 per barrel until June 2009.

Total equity and liabilities as at 30 September were MNOK 9,016, with equity of MNOK 1,267.5 (equity ratio of 14.0 per cent). At the end of third quarter 2007, the Group's net interest bearing debt was NOK 4.4 billion.

Cash flow from operating activities ended at MNOK 155.9. As at 30 September the Group's liquidity is healthy with MNOK 462 in cash.



# Consolidated financial statements

## Noreco Group consolidated income statement – IFRS

All figures in tNOK	3Q 07	Proforma 3Q 07	3Q 06
Operating income	391 978	391 978	0
Production cost	100 408	100 408	0
Exploration costs expensed	95 814	95 814	4 815
Other operating expenses	75 510	75 510	13 975
Operating results before depreciation and amortization (EBITDA)	120 247	120 247	-18 790
Depreciation and amortization	134 862	134 862	213
Operating result (EBIT)	-14 614	-14 614	-19 003
Financial items, net	-159 637	-170 362	-900
Profit before tax (EBT)	-174 251	-184 976	-19 903
Tax	-73 878	-76 901	-15 526
Net results	-100 372	-108 094	-4 378

All figures in tNOK	YTD 2007	Proforma YTD 2007	YTD 2006	Proforma YTD 2006	2006
Operating income	391 978	1 026 488	0	1 291 461	0
Production cost	100 408	234 324	0	208 341	0
Exploration costs expensed	138 996	159 486	16 266	50 332	25 735
Other operating expenses	103 022	166 921	39 996	145 906	60 806
Operating results before depreciation and amortization (EBITDA)	49 553	465 758	-56 262	886 882	-86 541
Depreciation and amortization	135 316	481 037	551	616 233	694
Operating result (EBIT)	-85 762	-15 278	-56 813	270 649	-87 235
Financial items, net	-167 087	-478 758	-818	-424 249	-830
Profit before tax (EBT)	-252 849	-494 036	-57 631	-153 601	-88 064
Tax	-131 070	-111 570	-44 952	-66 719	-68 205
Net results	-121 778	-382 465	-12 678	-86 882	-19 859



## Noreco Group consolidated balance sheet - IFRS

All figures in tNOK	30.09.07	30.09.06	31.12.06
<b>Non-Current assets</b>			
Goodwill	1 404 864	0	0
Deferred tax assets	47 977	1 212	5 147
License interests, exploration assets	3 943 041	5 940	8 882
Production facilities	2 642 562	0	0
Other machinery and equipment	5 771	1 922	1 804
<b>Total non-current assets</b>	<b>8 044 215</b>	<b>9 073</b>	<b>15 832</b>
<b>Current assets</b>			
Assets held for sale	14 831	0	0
Inventory, including underlift	92 800	0	0
Account receivables and other current receivables	176 972	3 060	4 842
Tax receivables	225 350	64 394	77 464
Bank deposits, cash in hand, etc.	461 748	6 091	11 970
<b>Total current assets</b>	<b>971 701</b>	<b>73 546</b>	<b>94 276</b>
<b>Total assets</b>	<b>9 015 915</b>	<b>82 618</b>	<b>110 108</b>
<b>Equity</b>			
Share capital	291 255	31 422	31 422
Other equity	976 229	31 482	24 302
<b>Total equity</b>	<b>1 267 484</b>	<b>62 904</b>	<b>55 724</b>
<b>Liabilities and obligations</b>			
Deferred tax liabilities	2 063 427	0	0
Provisions for other liabilities and charges	339 030	0	252
Convertible loan	344 688	0	0
Bond issue	3 617 702	0	0
Other long-term interest bearing debt	558 695	0	0
<b>Total liabilities and obligations</b>	<b>6 923 542</b>	<b>0</b>	<b>252</b>
<b>Short term liabilities</b>			
Liabilities held for sale	41 348	0	0
Other short term interest bearing debt	59 500	14 925	35 000
Current income taxes payable	193 429	0	0
Other current liabilities	530 612	4 789	19 132
<b>Total short term liabilities</b>	<b>824 889</b>	<b>19 714</b>	<b>54 132</b>
<b>Total liabilities</b>	<b>7 748 431</b>	<b>19 714</b>	<b>54 384</b>
<b>Total equity and liabilities</b>	<b>9 015 915</b>	<b>82 618</b>	<b>110 108</b>



## Noreco Group consolidated cash flow statement

All figures in tNOK	For the period	For the period	2006
	01.01 – 30.09.07	01.01 – 30.09.06	
Net cash from operating activities	155 893	-69 143	-80 373
Net cash from investing activities	-4 280 947	-6 949	-9 916
Net cash from financing activities	4 574 832	40 568	60 643
Net change in cash and cash equivalents	449 778	-35 525	-29 646
Cash and cash equivalents at the beginning of period	11 970	41 616	41 616
Cash and cash equivalents at the end of period	461 748	6 091	11 970

## Noreco Group consolidated statement and changes in equity

All figures in tNOK	For the period	For the period	2006
	01.01 – 30.09.07	01.01 – 30.09.06	
Balance at the beginning of period	55 723	49 940	49 940
Capital increase	1 405 651	25 643	25 643
Share issue cost	-51 541	0	0
Transferred from convertible bonds	53 750	0	0
Recognition of share based payments/convertible bond	5 916	0	0
Valueadjustment financial instruments	-2 997	0	0
Currency translation differences	-77 241	0	0
Net results for the period	-121 778	-12 678	-19 859
Balance at the end of period	1 267 484	62 904	55 724



# Notes to the quarterly consolidated financial statements

## 1) Basis for preparation

The consolidated interim financial statements for the third quarter of 2007 comprise Norwegian Energy Company ASA (Noreco) and its subsidiaries.

The consolidated interim financial statements for the third 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 statements for the nine months ended 30 September 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 and borrowings

There have been several capital increases during 2Q and 3Q. To finance the acquisition of Altinex ASA the company raised MNOK 1,195 in equity in May 2007. This equity was paid in May 2007. During 3Q additional equity were raised to finance part of the payment for shares in Altinex in connection with the mandatory offer. Also MNOK 10 of the previously raised convertible bonds (MNOK 440) was converted into equity during 3Q. The share capital has thereby been raised from MNOK 31.4 as per 31.12.2006 to MNOK 291.2 as per 30.09.2007.

In 3Q NORECO also has raised debt to finance 100 per cent of all shares in Altinex ASA through an additional MNOK 2,300 in unsecured bonds.

## 4) Share options and share based payments

NORECO has for the moment no option agreement with the employees, management or the board.

## 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 acquisition 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) Subsequent event**

On 9 November 2007 Noreco was listed on Oslo Stock Exchange. Prior to the listing the company raised additional MNOK 550 from private investors. The share capital after this equity raising was MNOK 345,3 consisting of 111,394,831 shares at par value NOK 3.10.

Noreco entered into an agreement to sell its wholly owned subsidiary's Altinex Service AS and Altinex Reservoir Technology in the end of October. The figures from the subsidiaries are presented under the line "assets held for sale" and "liabilities held for sale" in the consolidated balance sheet.

Noreco entered on 8 November 2007 into an agreement to sell its interests in block 3 and 4 onshore Oman to Tethys Oil AB.



## 10) 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
<b>Net assets acquired:</b>				
Goodwill	583 817			583 817
Deferred tax assets	50 929	(8 922)		42 007
License interests, exploration assets	402 141	(356)	3 512 500	3 914 285
Production facilities	2 298 648		530 500	2 829 148
Other machinery 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)		(1 628 835)	(2 107 235)
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)
	829 624	-	2 644 926	3 474 550
Goodwill arising on acquisition				869 898
Total consideration, satisfied by cash and share issue				4 344 448

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

Noreco has decided to dispose of Altinex Services AS and Altinex Reservoir Technology AS and has in the end of October entered into an agreement to sell both companies.

If the acquisition had been completed on 1 January 2007, total group revenue for the 9 months ending 30 September 2007 would have been MNOK 1,026.5, and net loss for the period would have been MNOK 382.5.

## 11) Approval of interim financial statements

The interim financial statements were approved by the board of directors on 22 November 2007.

Stavanger, 22 November 2007  
The Board of Directors of Norwegian Energy Company ASA



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