Petroswede AB

Annual Report 2011

Petroswede AB

Corp. ID 556199-7320

Annual report and consolidated financial statements for 2011

The Board of Directors and President & CEO of Petroswede AB herewith present the annual report and consolidated financial statements for the financial year 2011. All amounts are reported in SEK thousands unless otherwise stated.

BOARD OF DIRECTORS' REPORT

Ownership

Petroswede AB is a wholly-owned subsidiary of Moroncha Holdings Ltd, Cyprus.

Group organisation

Petroswede is an international oil group with the following directly and indirectly wholly-owned subsidiaries: Svenska Petroleum Exploration AB (SPE AB) and Oljeprospektering AB (OPAB) in Sweden, Swedish Petroleum Exploration AS (SPE AS) Svenska Petroleum Exploration AS (SPE AS) in Norway, Svenska Petroleum Exploration U.K. Ltd. (SPE UK), Petroswede Insurance Company Ltd in Ireland, as well as Svenska Petroleum Exploration CI Holding AB (SPE CIH AB) and its directly and indirectly owned subsidiaries Svenska Petroleum Exploration CI AB (SPE CI AB) and Svenska Petroleum Exploration CI Finance AB (SPE CIF AB). Also included in Sweden are the subsidiaries Svenska Petroleum Exploration Congo AB, SPE Angola AB and SPE New Ventures AB (formerly SPE Syria AB, renamed 2012), as well as SPE Nigeria AB and SPE Guinea Bissau AB and their directly and indirectly owned subsidiaries in Nigeria and Guinea Bissau. The Group is often referred to as "Svenska".

The Group's operations

The Group is actively involved, through owned interests in risk-sharing projects, in the exploration and production of oil and gas and related activities. The Group is active in all aspects of oil extraction from exploration to production through participation in risk-sharing projects. The business is currently located in Norway, the UK, Ivory Coast, Angola, Nigeria, Guinea Bissau, Republic of Congo, Sweden, Ireland and Latvia. Production of oil and gas is sold to a large number of refineries, primarily in Europe.

Events during the financial year

The production level during the year for the Baobab field in Ivory Coast was lower than in 2010. The average production was 5,975 (7,021) barrels per day, and was attributable to natural field decline in Ivory Coast.

Production for the Oombo and Cobo/Pambi fields in Angola was also lower than in 2010. This was partly due to the expiry of the Cobo and Pambi licence and partly due to a temporary slowdown in production in the Oombo field in the latter part of the year. Average daily production in Angola was 534 (1,274) barrels.

In March 2011, Svenska acquired a 20-per cent interest in the PL 554 and PL 554B licences from Det norske oljeselskap.

In the first half of the year, Svenska was involved in two commercial discoveries of oil and gas, namely Krafla Main and Krafla West in Norway.

During the year, Svenska completed the drilling of the Azul 1X exploration well, Block 23, off the coast of Angola. In addition, drilling of the Uge North1X exploration well commenced, and will be completed during 2012.

During the year, the oil price (Brent market price) increased by 15 per cent to an average of USD 111.3 per barrel for the year. The oil price, which started the year at USD 92.6 per barrel, reached USD 106.5 at the end of the year. In the early part of 2012 (31 January 2012) the oil price was USD 110.98 per barrel.

The US dollar weakened against the Swedish krona during 2011, with the average SEK/USD rate for the year falling by 10 per cent to 6.4953.

At an Extraordinary General Meeting of Petroswede AB in the first quarter of the year, it was decided to distribute the holding in Petrogrand, totalling SEK 16,555,000. At another Extraordinary General Meeting in the second quarter of the year, it was decided to distribute the equivalent of SEK 190,350,000 to the shareholder, Moroncha Holdings Ltd, Cyprus.

Events after the end of the financial year

On 17 January 2012, the Norwegian Ministry of Petroleum and Energy announced that the Group had been granted a 25-per cent interest in the PL 035C exploration licence on the Norwegian continental shelf, as part of the award of licences in pre-defined areas (TFO 2011).

Operating income and costs

Consolidated net sales amounted to SEK 1,700 (1,784) million, with higher oil prices compensating for the decline in production compared with the previous year.

Production totalled 2.4 million barrels of crude oil in 2011, compared to 3.0 million barrels in the previous year. The decrease is mainly attributable to normal field decline.

Average production was 6,509 (8,295) barrels per day. A total of 2,358,050 (3,132,223) barrels of oil were sold during the year at an average price of 109.01 (77.33) per barrel.

Total operating and exploration costs for 2011 were SEK 594 (665) million and were divided into cost items as follows. Operating costs for 2011 were SEK 221 (248) million. Royalty costs amounted to SEK 167 (234) million. Oil tax, which is classified as an operating cost, amounted to SEK 170 (54) million. Exploration and project costs for 2011 were 36 (129) million.

Consolidated depreciation and write-downs of oil and gas assets for 2011 amounted to SEK 160 (452) million.

Employee benefits costs for 2011 were SEK 67 (66) million. The total number of employees at 31 December was 44 (44).

Net financial items amounted to SEK -29 (-39) million. The improvement is largely attributable to a dividend of Petrogrand shares, which were recognised with a carrying amount of SEK 0 million. Exchange gains/losses on financial assets and liabilities in 2011 amounted to SEK -12 (-10) million. The exchange differences are mainly a result of the revaluation of USD-based assets and liabilities. Interest income for 2011 amounted to SEK 17 (27) million. Interest expenses were SEK 45 (56) million. For information on financial risks and financial policies see Note 22.

The Group's tax expense for 2011 was SEK 179 (85) million, corresponding to an effective tax rate of 22 (18) per cent.

Earnings and cash flow

The Group's operating profit for the 2011 financial year was SEK 840 (508) million.

Cash flow from operations before changes in working capital was SEK 712 (1,070) million.

Investments and financial position

Intangible and tangible fixed assets were SEK 4,807 (4,101) million at the end of the year. Investments in tangible fixed assets totalled SEK 18 (5) million, while investments in intangible assets were SEK 790 (358) million.

Cash and cash equivalents ended the year on SEK 419 (622) million.

The Group also has loan facilities of SEK 800 million (USD 115 million) and SEK 360 million (NOK 300 million) specifically for the financing of exploration costs. The facilities were unutilised at 31 December 2011.

Parent Company

The Parent Company's profit after tax for the year was SEK 214 (554) million. Equity amounted to SEK 1,060 (1,052) million. The Parent Company does not conduct any business. The Parent Company's revenue is generated from interest income, while its costs are related to consulting services and a dividend from a subsidiary.

Health, safety and environment

Petroswede complies with current international safety and environmental regulations in all its activities. However, to further ensure that operations are managed responsibly, policies and other governing documents have been drawn up to provide guidance in the area of health, safety and environment. The Group's environmental policy states that the Company will minimise environmental impacts and damage in both the short and long term, arrange appropriate training for employees and ensure that regulations are observed and procedures followed. Petroswede is also keen to contribute to the sustainable development of nature and the surrounding environment in the countries where the Group operates. The Group's overall HSE objective is to influence other partners and thereby indirectly work to ensure that HSE-related issues are given top priority. Petroswede also works actively within the CSR area, and has launched a partnership with SOS Children's Villages, whereby the Group supports a school in SOS Children's Villages in Bissau, Guinea Bissau. Petroswede also supports a youth school in Abobo Gare in Ivory Coast and the everyday activities of a social centre in Lubango, Angola.

Access to qualified personnel

The Group's most important resource is its personnel. Good access to qualified personnel is a vital factor in carrying through the Group's expansion projects and maintaining operating activities. This is ensured by consciously working towards the development of a project-oriented organisation. The Group's ambition is to unite different cultures and establish a common approach in the Group.

Risks and uncertainties

Risks in the oil and gas business

The full emphasis of the Group's operations is on exploration and extraction of oil and gas, and this involves operational and financial risks that no one, irrespective of experience and knowledge, can eliminate. In addition, there is no guarantee that commercially recoverable quantities of oil and gas will be found.

Political risks

The operations of the Group are international. Changes to laws governing areas such as foreign ownership, government participation, taxation, royalties, environmental regulations and customs may have an adverse effect on the Group's earnings. Risk factors such as internal strife, war, terrorism, border disputes and uprisings may also affect the Group negatively. At the end of 2011, the Group did not have any political risk insurance coverage for the countries in which it operates. The need to insure against such events is continuously assessed and a policy will be signed if the need for it arises and the market exists.

Environmental risks

Oil and gas exploration and extraction can cause environmental damage. National legislation and production agreements with partners may have the effect of making the Group liable for costs and damages associated with its operations. All business is conducted in accordance with national legislation and regulations and the environmental policy of the Group.

Reserve estimations

The estimation of oil reserves is affected by a number of uncertainties, most of which are beyond the Group's control. The estimations are primarily based on available geological, geophysical and technical data, the reliability of which varies. A downward adjustment of the current estimations cannot be ruled out, which could affect the Group's financial position and earnings negatively. The estimations used in the consolidated financial statements are therefore monitored closely and these are consistently conservative estimations, none of which exceeds those that the operators provide to each country's authority.

Outlook

There is much uncertainty about how oil prices will develop in 2012. However, the general view is that demand and the price of oil will rise again as the economy recovers.

The work of the Board

The Board, which previously consisted of five members, has three members. The Board held four meetings during the year.

Proposed appropriation of profits

The following amounts are at the disposal of the Annual General Meeting (in SEK):

Share premium reserve	186,922,063
Retained earnings	658,308,215
Profit for the year	214,202,969
Total	**1,059,433,247**

The Board proposes that the available profits and unrestricted reserves be dealt with as follows (in SEK):

Carried forward:	1,059,433,247
Of which to the share premium reserve	-

More detailed disclosures about the Company's financial results and position can be found in the income statements, balance sheets and accompanying notes.

Consolidated statement of comprehensive income

1 January–31 December (Amounts in SEK thousands)

	Note	2011	2010 1)
Net sales	2	1,699,756	1,783,615
Other operating income	3	36,658	33,597
		1,736,414	**1,817,212**
Stock variation		18,726	-35,965
Operational and exploration costs	5	-593,862	-665,096
Other external costs	7	-77,086	-76,259
Employee benefits expenses	6	-66,805	-65,990
Depreciation	2, 10	-160,027	-452,263
Other operating expenses	4	-17,321	-13,497
Operating profit/loss	2	**840,039**	**508,142**
Finance income	8	33,721	30,805
Finance costs	8	-62,345	-69,676
Net finance items		**-28,624**	**-38,871**
Profit before tax		**811,415**	**469,271**
Tax on profit for the year	9	-178,924	-84,834
NET PROFIT FOR THE YEAR		**632,491**	**384,437**
Other comprehensive income			
Exchange differences for the year		50,333	-226,317
Other comprehensive income for the year		**50,333**	**-226,317**
Comprehensive income for the year		**682,824**	**158,120**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Consolidated statement of financial position

(Amounts in SEK thousands)

	Note	31/12/2011	31/12/2010 1)	01/01/2010 1)
ASSETS				
Intangible assets	11	3,027,403	2,212,462	2,220,952
Tangible fixed assets	12	1,778,955	1,888,736	2,204,625
Financial investments	13	306	306	306
Other non-current receivables	14	4,137	3,178	1,238
Total non-current assets		**4,810,801**	**4,104,682**	**4,427,121**
Current assets				
Inventories	15	74,459	70,114	71,658
Trade receivables	16	137,001	283,868	310,414
Prepayments and accrued income	17	199,425	177,718	181,362
Other receivables		293,816	107,111	73,648
Tax receivables		223,580	81,285	243,842
Cash and cash equivalents	29	419,046	621,832	372,216
Total current assets		**1,347,327**	**1,341,928**	**1,253,140**
TOTAL ASSETS		**6,158,128**	**5,446,610**	**5,680,261**
EQUITY AND LIABILITIES				
Equity				
Share capital		103	103	103
Other paid-in capital		186,942	186,942	186,942
Reserves		-132,635	-182,968	43,349
Retained earnings, incl. profit for the year		4,279,139	3,853,553	4,009,116
Total equity		**4,333,549**	**3,857,630**	**4,239,510**
Liabilities				
Deferred tax liabilities	9	1,028,711	884,317	911,848
Provisions for pensions etc.	18	1,009	400	-
Other provisions	19	66,771	70,120	63,473
Total non-current liabilities		**1,096,491**	**954,837**	**975,321**
Trade payables		70,870	88,443	15,939
Other liabilities	20	23,410	56,033	115,643
Accruals and deferred income	21	563,209	344,818	223,506
Current tax liabilities		70,599	144,849	110,342
Total current liabilities		**728,088**	**634,143**	**465,430**
Total liabilities		**1,824,579**	**1,588,980**	**1,440,751**
TOTAL EQUITY AND LIABILITIES		**6,158,128**	**5,446,610**	**5,680,261**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Consolidated statement of changes in equity

(Amounts in SEK thousands)

	Share capital	Other paid-in capital	Translation reserve	Retained earnings incl. net profit/loss	Total equity
Opening equity, 1 Jan 2010	103	186,942	43,349	3,992,233	4,222,627
Effect of change in accounting principle 1)	-	-	-	16,883	16,883
Restated opening balance	103	186,942	43,349	4,009,116	4,239,510
Profit/loss for the year	-	-	-	384,437	384,437
Other comprehensive income for the year	-	-	-226,317	-	-226,317
Comprehensive income for the year	-	-	-226,317	384,437	158,120
Dividend paid	-	-	-	-540,000	-540,000
Closing equity, 31 Dec 2010	**103**	**186,942**	**-182,968**	**3,853,553**	**3,857,630**
Profit/loss for the year	-	-	-	632,491	632,491
Other comprehensive income for the year	-	-	50,333	-	50,333
Comprehensive income for the year	-	-	50,333	632,491	682,824
Dividend paid	-	-	-	-206,905	-206,905
Closing equity, 31 Dec 2011	**103**	**186,942**	**-132,635**	**4,279,139**	**4,333,549**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Consolidated statement of cash flows

1 January–31 December (Amounts in SEK thousands)

	Note	2011	2010 2)
Indirect method			
Operating activities			
Profit before tax 1)		811,415	469,271
Adjustment for non-cash items	29	-79,012	409,728
		732,403	878,999
Taxes paid		-20,175	191,577
Cash flow from operating activities before changes in working capital		**712,228**	**1,070,576**
Cash flow from changes in working capital			
Decrease (+)/increase(-) in inventories		-3,198	-2,348
Decrease (+)/increase(-) in operating receivables		-53,542	-60,416
Decrease (-)/increase(+) in operating liabilities		158,181	154,091
Cash flow from operating activities		**813,669**	**1,161,903**
Investing activities			
Acquisition of intangible assets	11	-790,072	-357,680
Acquisition of tangible fixed assets	12	-17,874	-4,774
Cash flow from investing activities		**-807,946**	**-362,454**
Financing activities			
Proceeds from borrowings		35,241	34,560
Repayment of borrowings		-35,241	-34,560
Dividend paid		-206,905	-540,000
Cash flow from financing activities		**-206,905**	**-540,000**
Cash flow for the year		**-201,182**	**259,449**
Cash & cash equivalents at beginning of year		621,832	372,216
Exchange differences		-1,604	-9,833
Cash & cash equivalents at end of year		**419,046**	**621,832**

1) The amount includes interest received of SEK 17,166 (27,460) thousand, and interest paid of SEK 45,650 (56,335) thousand. Supplementary information to consolidated cash flow statement, see note 29.

2) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Parent company income statement

1 January–31 December (Amounts in SEK thousands)

	2011	2010
Total operating income	**-**	**-**
Operating expenses		
Other external costs	-8,001	-
Total operating expenses	**-8,001**	**-**
Operating profit/loss	**-8,001**	**-**
Profit/loss from financial items		
Profit/loss from investments in Group companies	206,905	540,000
Interest income from Group companies	17,961	16,575
Other interest and similar income	-	2,812
Other interest and similar expense	-58	-
Profit/loss after financial items	**216,807**	**559,387**
Tax	-2,604	-5,099
PROFIT/LOSS FOR THE YEAR	**214,203**	**554,288**
COMPREHENSIVE INCOME FOR THE YEAR	**214,203**	**554,288**

Profit for the year is consistent with other comprehensive income

Parent company balance sheet

At 31 December (Amounts in SEK thousands)

	Note	31/12/2011	31/12/2010
ASSETS			
Financial assets			
Investments in Group companies	27	850,000	850,000
Non-current receivables, Group companies	14	232,772	214,811
Total non-current assets		**1,082,772**	**1,064,811**
Receivables, Group companies		1,045	3,857
Total current assets		**1,045**	**3,857**
TOTAL ASSETS		**1,083,817**	**1,068,668**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (1,030 shares, par value SEK 0.10)		103	103
Legal reserve		20	20
Total restricted equity		**123**	**123**
Non-restricted equity			
Share premium reserve		186,922	186,922
Retained earnings		658,308	310,925
Profit/loss for the year		214,203	554,288
Total unrestricted equity		**1,059,433**	**1,052,135**
Total equity		**1,059,556**	**1,052,258**
Current tax liabilities		7,703	5,099
Liabilities, Group companies		8,558	11,311
Accruals and deferred income		8,000	-
Total current liabilities		**24,261**	**16,410**
TOTAL EQUITY AND LIABILITIES		**1,083,817**	**1,068,668**
Pledged assets		**None**	**None**
Contingent liabilities		**None**	**None**

Statement of changes in equity – Parent Company

(Amounts in SEK thousands)

	Share capital	Legal reserve	Share premium reserve	Retained earnings	Total equity
Opening equity, 1 Jan 2010	103	20	186,922	850,925	1,037,970
Profit/loss for the year	-	-	-	554,288	554,288
Dividend paid	-	-	-	-540,000	-540,000
Closing equity, 31 Dec 2010	**103**	**20**	**186,922**	**865,213**	**1,052,258**
Profit/loss for the year	-	-	-	214,203	214,203
Dividend paid	-	-	-	-206,905	-206,905
Closing equity, 31 Dec 2011	**103**	**20**	**186,922**	**872,511**	**1,059,556**

Profit for the year is consistent with other comprehensive income.

Cash flow statement – Parent Company

1 January–31 December (Amounts in SEK thousands)

	2011	2010
Indirect method		
Operating activities		
Profit/loss after financial items	216,807	559,387
	216,807	**559,387**
Cash flow from operating activities before changes in working capital	**216,807**	**559,387**
Cash flow from changes in working capital		
Decrease (+)/increase(-) in operating receivables	2,812	-19,387
Decrease (+)/increase(-) in operating liabilities	5,247	-
Cash flow from operating activities	**224,866**	**540,000**
Cash flow from investing activities		
Investments in financial assets	-17,961	-
Cash flow from investing activities	**-17,961**	**-**
Cash flow from financing activities		
Dividend	-206,905	-540,000
Cash flow from financing activities	**-206,905**	**-540,000**
Cash flow for the year	**0**	**0**
Cash & cash equivalents at beginning of year	-	-
Exchange differences	-	-
Cash & cash equivalents at end of year	-	-

Notes to the financial statements

Amounts in SEK thousands unless otherwise specified

Note 1

Significant accounting policies

General information
Petroswede AB is a limited company, which is incorporated in Sweden and has its registered office in Stockholm.

The address of the Head Office is Biblioteksgatan 29, SE-115 93 Stockholm, Sweden.

The consolidated statement of comprehensive income and statement of financial position and the Parent Company's income statement and balance sheet will be presented for adoption at the annual general meeting to be held on 27 March 2012.

Statement of compliance
The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Regulations for Groups has been applied.

The Parent Company applies the same accounting policies as the Group, except in the cases described below in the section entitled "The Parent Company's Accounting Policies". Any differences are due to limitations in the ability to apply IFRS in the Parent Company as a result of the provisions of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act.

(b) Basis of preparation
Assets and liabilities are measured at historical cost, apart from certain financial assets, which are measured at fair value. The financial assets that are measured at fair value consist of financial assets classified as 'at fair value through profit or loss'.

Functional currency and reporting currency
The Parent Company's functional currency is Swedish kronor, which is also the reporting (presentation) currency for the Parent Company and for the Group. Consequently, the financial statements are presented in Swedish kronor. All amounts are rounded to the nearest thousand, unless otherwise stated.

Judgements and accounting estimates in the financial statements
Preparation of financial reports in accordance with IFRS requires use of a number of significant accounting estimates. In addition, management is required to make certain judgements when applying the Company's accounting policies. Information about areas which are complex or involve a high proportion of assumptions and estimates, or areas where accounting estimates are of key significance to the consolidated financial statements, can be found in Note 28.

Amended accounting policies
There have been some accounting policy changes for the year 2011. These relate to underlift and overlift (IAS 18), and oil tax reclassification.

The effects of the new accounting policies are illustrated in a table in which the comparative figures have been restated, see Note 31.

The changes to the accounting policies are as follows.

Revenue recognition
If the difference between production volume and actual sales is positive, it is reported as accrued income (underlift). If the difference is negative, it is reported as accrued expense (overlift), apart from the portion of the manufacturing cost that is attributable to other assets or other liabilities.

From 2011, total underlift and overlift are measured at fair value at the reporting date, with retrospective application.

Corporate tax in production-sharing contracts
A higher corporate tax has been negotiated in production sharing contracts for the extraction of crude oil. The amount of tax varies with the level of production. The portion of the corporate tax that exceeds the country's standard corporate income tax is classified as an operating cost, even though it is legally viewed as a general tax. The reclassification of oil tax is attributable to production in Ivory Coast.

CHANGED ASSESSMENT

Changed currency translation method
With effect from 2010, the method of accounting for exchange differences arising on foreign currency loans and which relate to investments in independent foreign operations has changed. Exchange differences are now recognised directly in equity under IAS 21. Foreign currency loans are entirely intra-group, and the assessment is that

exchange differences prospectively do not have any impact on earnings. When foreign operations are disposed of, cumulative exchange differences are recognised in profit or loss.

The effects of the new assessment are illustrated in a table in which the comparative figures have been restated, see Note 31.

New IFRS standards and interpretations not yet effective
There are a number of new standards, amended standards and interpretations which are effective for accounting periods commencing on or after 1 January 2012. These have not been applied in the preparation of the financial statements.

New or amended standards with future application are not planned to be applied early. Only standards considered relevant to the Group are commented on.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement and will be effective for annual periods commencing on or after 2015. The IASB has published the first two of three or more parts, which together will form IFRS 9. The first part deals with the classification and measurement of financial assets. The categories of financial assets in IAS 39 are replaced by two classifications – those measured at fair value and those measured at amortised cost. Amortised cost is used for instruments held in a business model where the contractual terms of the financial asset give rise on specified dates to cash flows that are payments of principal and interest on the principal outstanding. Other financial assets are measured at fair value and the opportunity to apply the fair value option as in IAS 39 is retained. Changes in fair value are recognised in profit or loss. However, if an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income. Changes in the value of derivatives in hedge accounting are not affected by this part of IFRS 9, but continue to be accounted for in accordance with IAS 39 until further notice. In October 2010, the IASB also published the parts of IFRS 9 dealing with the classification and measurement of financial liabilities. The majority is consistent with the previous rules contained in IAS 39, apart from the option to designate financial liabilities as measured at fair value through profit or loss (the fair value option). Gains and losses on these liabilities are split into those attributable to changes in the credit rating of the liabilities and those attributable to changes in the benchmark rate.

Amended accounting policies with future application are as follows:

- Amendments to IAS 19 Employee Benefits
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 13 Fair Value Measurement

The preliminary assessment is that it is primarily the amendments to IAS 19, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 that will have an impact on Petroswede Group when they come into effect.

Amendments to IAS 19: In June 2011, the IASB published amendments to IAS 19. The main amendments concern the elimination of the corridor approach. All actuarial gains and losses are to be recognised in other comprehensive income. The return on plan assets will be based on the discount rate used in calculating the pension obligation. The amendments are effective for annual periods commencing on or after 1 January 2013, with retrospective application. It is Petroswede's estimation that this will have an effect of approx. SEK 3 million on the year's earnings. Plan assets will be affected by approx. SEK 0 million. As the corridor approach will not be allowed, the pension obligation will increase by approx. SEK 3 million.

IFRS 10: New standard for consolidated financial statements, which will supersede IAS 27. The new standard sets out how to apply the principle of control to identify whether an investor controls an investee. This assessment will be based on the actual control the company has over the entities it owns. There are no changes to the rules on acquisitions and disposals. The standard is effective for annual periods commencing on or after 1 January 2013, with retrospective application. It is Petroswede's opinion that the new standard will not affect the current method of assessing whether an entity is controlled and must consequently be consolidated.

IFRS 11: A new standard dealing with accounting for joint ventures and joint operations. Under the new standard, use of the proportionate method is eliminated when consolidating joint ventures; only the equity method will be allowed. In addition, not only the structure of joint arrangements is to be considered when assessing whether it is a joint operation or joint venture, but also legal forms, contracts and other circumstances and factors. The accounting for joint arrangements depends on the type of joint arrangement it is. The standard is effective for annual periods commencing on or after 1 January 2013. It is Petroswede's assessment that all its current jointly controlled operations qualify as a joint operation under the new standard, which means there will be no change from the present accounting. However, Petroswede cannot rule out the possibility of future investments in joint ventures, which are accounted for using the equity method.

IFRS 12: The new standard deals with disclosure requirements for holdings in subsidiaries, joint ventures, associates and structured entities. The new standard provides enhanced disclosure requirements, which include the effect of the investment on the Group's consolidated results, financial position and cash flow. Like IFRS 10 and IFRS 11, the new standard is effective for annual periods commencing on or after 1 January 2013.

IFRS 13: A new uniform standard for determining fair value, and providing enhanced disclosure requirements. The new standard, which is effective for annual periods commencing on or after 1 January 2013, will require enhanced disclosures from Petroswede.

Operating segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and related expenses, and for which discrete financial information is available. The segment's operating results are reviewed by Group management in order to make decisions about resources to be allocated to the segment and assess its performance. See note 2 for a further description of the classification and presentation of operating segments.

Classification

Non-current assets and liabilities are essentially amounts that are expected to be recovered or paid more than twelve months after the reporting date. Current assets and liabilities are essentially amounts that are expected to be recovered or paid within twelve months of the reporting date.

Basis of consolidation

Subsidiaries

Subsidiaries are companies over which Petroswede AB has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are accounted for by applying the acquisition method. The acquisition is treated as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis defines the acquisition date fair value of the identifiable assets acquired, liabilities assumed and any non-controlling interests. Transaction costs that arise, apart from transaction costs attributable to the issue of equity or debt instruments, are recognised directly in the income statement.

With effect from 1 January 2010, the Group applies the revised IFRS 3 Business Combinations and the amended IAS 27 Consolidated and Separate Financial Statements. The accounting policies mean that the contingent consideration is measured at fair value on the acquisition date and the effects of the remeasurement of liabilities related to the contingent consideration are recognised as income or expense in the income statement. There are options for measuring non-controlling interest and goodwill – fair value (or the full goodwill method) and the NCI's proportionate share of the net assets of the acquiree. The two options are available on a transaction by transaction basis. Acquiring additional shares in a subsidiary after control was obtained is accounted for as an equity transaction with owners.

Acquisitions made between 1 January 2004 and 31 December 2009

For acquisitions made between 1 January 2004 and 31 December 2009 where the cost exceeds the fair value of acquired assets, assumed liabilities and contingent liabilities (recognised separately), the difference is reported as goodwill. If the difference is negative, this is recognised directly in profit/loss for the year.

Transaction costs, with the exception of transaction costs attributable to the issue of equity or debt instruments are included in the acquisition cost.

Acquisitions made prior to 1 January 2004 (date of transition to IFRS)

For acquisitions made before 1 January 2004, goodwill, after impairment testing, has been recognised at cost, which corresponds to the carrying amount under previous accounting policies. The classification and accounting treatment of business combinations occurring before 1 January 2004 has not been reviewed in accordance with IFRS 3 in the preparation of the consolidated opening balance sheet under IFRS at 1 January 2004.

The subsidiaries' financial reports are included in the consolidated financial statements from the date of acquisition until the date on which control ceases.

If a subsidiary's accounting policies differ from those applied by the Group, adjustments are made to the Group's accounting polices.

Transactions eliminated on consolidation

Intra-group receivables and liabilities, income and expense, and unrealised gains or losses arising from intra-group transactions are eliminated in full when preparing the consolidated financial statements.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent that corresponds to the Group's interest in the company. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no indication of impairment.

Foreign currency

Foreign Currency Transactions

Transactions in foreign currency are translated into the functional currency according to the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets are translated into the functional currency using the exchange rates prevailing on the reporting date. Foreign exchange differences arising on translation are recognised in profit/loss for the year. Non-monetary assets and liabilities recognised at historical cost are translated using the exchange rates prevailing at the date of the transaction. Non-monetary assets and liabilities recognised at fair value are translated unto the functional currency using the exchange rates prevailing at the date of the fair value measurement. Subsequent exchange gains and losses are reported in the same way as other value changes relating to the asset or liability.

The functional currency is the currency of the primary economic environment in which the Group entity operates. Companies within the Group are the Parent Company and subsidiaries. The Parent Company's functional currency and presentation currency is the Swedish krona. The Group's presentation currency is the Swedish krona.

Financial statements of foreign operations

The assets and liabilities of foreign entities, including goodwill and other fair value adjustments arising on consolidation, are translated into Swedish kronor using the exchange rate prevailing at the reporting date. The income and expenses of foreign entities are translated into Swedish kronor using average exchange rates. This average is an approximation of the cumulative effect of the rates prevailing at the transaction dates.

Exchange differences arising on translation of a foreign net investment are recognised in other comprehensive income and accumulated in the translation reserve, which is a separate component of equity. On disposal of a foreign operation, the cumulative exchange differences are recycled from equity to profit or loss as a reclassification adjustment at the time the gain or loss on disposal is recognised.

Cumulative translation differences attributable to foreign operations were deemed to be zero at the date of transition to IFRS.

Jointly controlled entities

The Group engages in oil and gas operations as a joint venture partner with other parties. The Group's interests in jointly controlled licences are accounted for using the proportionate consolidation method, which means that the consolidated financial statements include the Group's proportionate share of production, investment costs, operating income and expenses, current assets and current liabilities.

Revenue recognition

The actual production of crude oil is recognised as revenue with the associated costs in the current period. The method of revenue recognition is based on observable market prices and a minimal risk to the seller in terms of sales and distribution.

Sales arrangements for oil in jointly owned oil and gas assets are frequently such that it is not practicable for each participant to sell its precise contractual share during the period. Any imbalance between production and sales for each participant represents overlift or underlift. If the difference between production and actual sales is positive, it is reported as accrued income (underlift). If the difference is negative, it is reported as accrued expense (overlift), apart from the portion of the manufacturing cost that is attributable to other assets or other liabilities.

The difference in production costs from period to period is shown as a change in inventories in the income statement.

Total underlift and overlift are measured at fair value at the reporting date.

Operating expenses, finance income and finance costs

Leases

A lease is classified as an operating lease when it does not transfer substantially all the risks and rewards incidental to ownership. Payments made under operating leases are recognised as an expense on a straight-line basis over the lease term. The Group has no outstanding significant finance leases.

Finance income and costs

Finance income and costs comprise interest income from bank deposits and receivables and interest-bearing securities, interest payable on borrowings, dividend income, exchange differences and unrealised gains and losses on financial investments.

Interest expenses, including issue expenses and similar expenses for direct transactions concerning loans, are amortised over the life of the loan using the effective interest method.

Revenue from dividends is recognised when the right to receive payment is established.

Taxes

The Group's income tax consists of current tax and deferred tax. Income taxes are recognised in the income statement, unless the underlying transaction is recognised in other comprehensive income or in equity, in which case the associated tax effect is recognised in other comprehensive income or in equity. Current tax is tax that must be paid or received in respect of the current year. This also includes any adjustment of current tax attributable to previous periods. Deferred tax is provided using the balance-sheet liability method. A deferred tax liability is recognised for temporary differences between the carrying amounts of assets and liabilities and their corresponding tax bases. Amounts are calculated based on how the temporary differences are expected to be settled and by applying the tax rates enacted or substantively enacted by the reporting date.

No deferred tax is recognised for temporary differences relating to investments in subsidiaries and joint ventures that are not expected to be taxed in the foreseeable future. Untaxed reserves are recognised inclusive of deferred tax liability in the legal entity. In the consolidated financial statements, untaxed reserves are divided into deferred tax liability and equity.

Deferred tax assets on temporary differences and deferred tax assets arising from the carryforward of unused tax losses are only recognised to the extent that it is probable that they will be recoverable in future periods.

Financial instruments

Financial instruments reported under assets in the balance sheet include cash & cash equivalents and trade receivables and loan receivables. Financial instruments reported under equity and liabilities include trade payables and loan payables.

Recognition and derecognition in the statement of financial position

A financial asset or liability is recognised in the statement of financial position when the Company becomes a party to the instrument's contractual terms. A receivable is recognised when the Company has performed and the counterparty has a contractual obligation to pay, even if an invoice has not yet been sent. Trade receivables are recognised in the statement of financial position when invoices are sent. A liability is recognised when the counterparty has performed and there is a contractual obligation to pay, even if an invoice has not yet been received. Trade payables are recognised when invoices are received.

Financial assets are derecognised in the statement of financial position when the rights under the contract have been realised, have expired or the Company loses control over them. The same applies to a part of a financial asset. Financial liabilities are derecognised in the statement of financial position when the contractual obligation has been discharged or extinguished in some other way. The same applies to a part of a financial liability.

A financial asset and a financial liability may be offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Purchases and sales of financial assets are recognised on the trade date (the commitment date), apart from purchases and sales of listed securities, which are recognised on the settlement date.

Cash & cash equivalents consist of cash, demand deposits with banks and similar institutions and short-term deposits with an original maturity of 3 months or less, which are subject to an insignificant risk of changes in value.

Classification and measurement

Non-derivative financial instruments are initially recognised at cost, namely fair value plus transaction costs, apart from financial assets measured at fair value through profit or loss, which are recognised at fair value net of transaction costs. A financial instrument is classified on initial recognition according to the purpose for which it was acquired. The categories determine how a financial instrument is measured subsequent to initial recognition, as described below.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortised cost. Amortised cost is calculated based on the effective interest method used at initial recognition. Receivables are recognised at original invoice amount less an allowance for uncollectible amounts. A reserve for impairment of receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms and conditions of the receivables. Impairment of trade receivables is reported under operating profit/loss.

- Held-to-maturity investments

Held-to-maturity investments are financial assets comprising interest-bearing securities with fixed or determinable payments that an entity intends and is able to hold until maturity. Assets in this category are measured at amortised cost.

- Other financial liabilities

Loans and other financial liabilities, such as trade payables, are included in this category. The liabilities are measured at amortised cost.

The categories to which the Group's financial assets and liabilities have been allocated are shown in notes 16 (Trade payables), 29 (Cash and cash equivalents) and 20 (Liabilities). The accounting for finance income and costs is also described in Finance income and costs above.

Distributions of non-cash assets to owners

Liabilities relating to distributions are recognised at fair value at the date of the decision. The counter item is retained earnings. At the date of distribution, the Group recognises the difference between the fair value of the distribution and the carrying amount in the Group for the distributed net assets in net income for the year.

Intangible assets

Exploration Costs

The Group uses the successful-efforts method when capitalising exploration costs. The method means that all exploration costs in the oil licences in which Petroswede has an interest, indirectly through contracts, are capitalised as intangible assets, pending determination of commercially recoverable reserves. Directly attributable costs, such as administrative costs, are capitalised only to the extent that they can be related to specific exploration activities. If an exploratory well is in progress at the end of an accounting period and the well is determined not to have found proved reserves before the financial statements for the period are issued, the capitalised costs are written off. Following the discovery of a commercially viable field, the intangible assets are reclassified to tangible fixed assets. This type of reclassification is always preceded by impairment testing. During the year, the Group regularly evaluates the technical conditions for reclassification to tangible fixed assets.

Tangible fixed assets

Oil and gas assets

Tangible fixed assets consist of oil and gas assets, construction in progress and equipment. The balance sheet item oil and gas assets relates to the Group's interests in oil licenses. Investment and construction costs are allocated to the Group by invoices from the operator in the oil and gas assets in which the Group is a partner.

Tangible fixed assets are recognised at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Depreciation

Capitalised expenses are depreciated from the start of production. Depreciation is calculated according to the unit-of-production method, which is based on the year's production and its relation to proven and probable reserves of oil. The basis for calculating the unit of production consists of the estimated value of investments over the life of the field and the present value of estimated restoration costs.

Proved oil and gas reserves are defined as the estimated amount of crude oil, natural gas and liquid natural gas which, from geological and engineering data provided by the operator of the field or from an independent party, and with reasonable probability (higher than 90%), can be extracted in the future from known reserves within the current economic and operational environment, i.e. oil prices and costs at the date of the calculation.

Probable reserves are those unproven reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, it is considered that there should be at least 50 per cent probability that the extracted quantities will equal or exceed the sum of proven and probable reserves.

Machinery and equipment (excluding computers) are depreciated over 5 years.

Computers and computer equipment are depreciated over 3 years.

Impairment

If a change in economic conditions indicates a possible decline in the value of a fixed asset, the net carrying amount of the asset is assessed by comparison with its estimated discounted future net cash flows. The calculation is based on management's assessment of future oil prices and costs. An impairment loss is recognised if the carrying amount exceeds the discounted present value of the cash flows. The impairment loss is reversed if the carrying amount is lower than the discounted present value of the cash flows. Licences that are in the exploration phase are not subjected to impairment testing. Impairment testing is normally done during reclassification to the balance sheet item construction in progress.

Reversal of impairment losses

Impairment of assets is reversed if there is an indication that the impairment no longer exists and there has been a change in the assumptions on which the calculation of recoverable amount was based. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation where applicable, had no impairment loss been recognised.

Inventories

Inventories are recognised at the lower of cost and net realisable value. The cost of crude oil includes operating expenses, depreciation and fixed transportation costs.

Cost is determined using the first-in first-out method (FIFO).

Overlift and underlift

Overlift and underlift are described in Revenue recognition.

Employee benefits

The Group has a number of different pension plans for its employees. In Sweden and Norway, the pension plans for employees are defined benefit plans, except for the CEO and management group of SPE AB, who have a defined contribution plan. The pension arrangements for the branch in the UK are defined contribution plans.

Defined contribution plans are plans under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions. The Group's profit (loss) is charged with expenses as the benefits are earned. With defined benefit plans, employees and former employees receive benefits on the basis of salary upon retirement and the number of years' service. The Group bears the risk that the defined benefits are paid.

The defined benefit plans are funded. This means the assets have been separated into a pension fund, administered by Collectum. These plan assets can only be used to pay benefits in accordance with the pension agreement.

The net present value of the obligations and the fair value of plan assets are reported as a long-term financial receivable or pension provision in the statement of financial position.

Pension costs and pension obligations for defined benefit pension plans are calculated using the Projected Unit Credit Method. This method allocates the cost of pensions as the employees render services to the company and thereby increase their entitlement to future benefits. The Company's obligation is calculated annually by independent actuaries. The pension obligation is measured as the present value of estimated future cash outflows. The discount rate used is the interest rates of government bonds with a maturity corresponding to the average maturity of the obligations and the currency. The main actuarial assumptions are described in Note 18.

Actuarial gains and losses may arise when determining the present value of the pension obligation and the fair value of plan assets. These occur either because the actual outcome differs from the previous assumption or the assumptions are changed. Actuarial gains and losses are recognised immediately in profit or loss by applying the principle of a corridor of 10%.

Interest expense and the expected return on plan assets are classified under finance costs and finance income. Other expense items in pension costs are charged to operating profit.

Provisions

Restoration costs

At the end of the productive life of an oil field, costs associated with the removal and abandonment of the oil and gas facilities arise. The Group recognises the full discounted estimated costs of abandonment as a provision and a non-current asset when the obligation to rectify environmental damage arises. Where discounting is used, the increase in the provision over time is recognised as a finance cost.

Other provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities

A contingent liability is recognised when a possible obligation arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when there is an obligation which is not recognised as a liability or provision because it is not probable that an outflow of resources will be required to settle the obligation.

Accounting policies – Parent company

The Parent Company's annual financial statements have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities (September 2011). The Swedish Financial Reporting Board's statements for listed companies are also applied. RFR 2 requires the Parent Company, as a legal entity, to prepare its annual financial statements in compliance with all the IFRS and IFRIC interpretations adopted by the EU, to the extent possible within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and taking into account the relationship between tax expense/income and accounting profit. The recommendation states which exceptions from and additions to IFRS shall be observed.

The accounting policies described below have been applied consistently to all periods presented in the Parent Company's financial statements.

Amended accounting policies

Unless otherwise stated below, the Parent Company's amended accounting policies for 2011 are the same as those described for the Group.

The Swedish Financial Reporting Board has withdrawn UFR 2 Group contributions and shareholder contributions and made changes in RFR 2 regarding the reporting of group contributions, which means that Petroswede has changed its accounting policies for the reporting of group contributions to and from subsidiaries. From 2011, Group contributions received are reported as dividends, while Group contributions made are reported as an investment in shares in subsidiaries. The change has been applied retrospectively in accordance with IAS 8. It has not been necessary to restate the figures for the current period and previous periods, as Group contributions were only made in 2009 (SEK 11,311,000), with a corresponding write down of shares in subsidiaries.

Classification and presentation

The Parent Company prepares an an income statement and a statement of comprehensive income, while the Group combines these two reports into a statement of comprehensive income. In addition, the Parent Company uses the titles balance sheet entries and cash flow statement for its reports, while the Group uses the terms statement of financial position and statement of cash flows. The presentation of the income statement and balance sheet for the Parent Company is in accordance with the Swedish Annual Accounts Act, while the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The main differences between the consolidated financial statements and the Parent Company's income statement and balance sheet are in the accounting for finance income and costs, and non-current assets and equity.

Subsidiaries

Investments in subsidiaries are recognised in the Parent Company using the cost model. This means that transaction costs are included in the carrying amount for holdings in subsidiaries. In the consolidated accounts, transaction costs are recognised directly in the income statement when they arise.

Contingent consideration is measured according to the probability that the purchase price will be paid. Any changes to the provision/receivable increase/decrease the cost. In the consolidated accounts, contingent consideration is measured at fair value, with value changes recognised in profit or loss.

Bargain purchases that correspond to expected future losses and expenses are reversed during the expected periods in which the losses and expenses arise. Bargain purchases arising from other causes are recognised as a provision to the extent that they do not exceed the fair value of acquired identifiable non-monetary assets. The portion exceeding this value is recognised immediately. The portion not exceeding the fair value of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the acquired identifiable assets that are depreciable. In the consolidated accounts, bargain purchases are recognised directly in the the income statement.

Note 2

Segment reporting

The Group's operations are divided into operating segments based on which components Petroswede's chief operating decision-maker reviews regularly. The Group has identified Group management as its chief operating decision-maker (CODM). Petroswede Group's operations are organised so that Group Management (CODM) is able to monitor and review income from the sale of oil and gas, operating profit (EBIT), investments, assets and liabilities for the Group's different geographical areas. As Group management reviews financial performance and decides on resource allocation based on geographical areas (countries), these represent the operating segments. Petroswede Group's internal reporting is therefore structured in such a way as to allow Group management to review the performance and results of the geographical areas. It is on the basis of this reporting that the Group's segments have been identified.

Intangible assets and oil and gas assets have been allocated to the different segments. Unallocated and group-wide assets are reported as group-wide. There are no inter-segment sales.

	GROUP	
	2011	2010[1)]
Net sales[*)]		
-Angola	169,895	301,485
-Ivory Coast	1,529,861	1,482,130
Total	**1,699,756**	**1,783,615**
[*)] sale of crude oil to external customers		
Operating profit/loss		
Norway	-113,506	-68,835
Angola	43,820	37,065
Ivory Coast	933,104	826,704
Guinea Bissau	3,032	4
Nigeria	-	-220,055
Congo	-1,021	-3,113
Group-wide	-25,390	-63,628
Total	**840,039**	**508,142**
Depreciation		
Norway	-1,035	-1,386
Angola	-1,378	-6,703
Ivory Coast	-157,614	-307,091
Nigeria	-	-134,796
Group-wide	-	-2,287
Total	**-160,027**	**-452,263**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	GROUP	
	2011	2010[2)]
ASSETS		
Intangible assets		
Norway	602,593	375,731
Angola	743,251	257,278
Guinea Bissau	154,639	124,611
Nigeria	1,486,696	1,418,809
Congo	40,225	36,033
Oil and gas assets		
Angola	10,198	9,930
Ivory Coast	1,756,591	1,864,801
Non-allocated assets	1,363,935	1,359,417
Total	6,158,128	5,446,610
INVESTMENTS		
Norway	230,840	46,417
Angola	485,973	35,734
Ivory Coast	17,173	108,029
Guinea Bissau	29,695	91,590
Nigeria	39,706	43,037
Congo	4,192	36,033
Group-wide	367	1,614
Total	**807,946**	**362,454**
LIABILITIES & PROVISIONS		
Norway	424,797	237,343
Angola	227,628	33,026
Ivory Coast	614,443	589,231
Guinea Bissau	19,567	72,235
Nigeria	497,808	465,641
Congo	1,916	33,410
Group-wide	38,420	148,645
Total	**1,824,579**	**1,579,531**
INCOME FROM EXTERNAL CUSTOMERS [1)]		
Customer 1	1,529,861	1,482,130
Customer 2	169,895	301,485
	1,699,756	**1,783,615**

1) Income from external customers, consisting of two large international oil companies. Customer 1 is attributable to Ivory Coast; percentage share of the Group's revenues is 90% (83%). The customer's registered office is outside the country. Customer 2 is attributable to Angola; percentage share of the Group's revenues is 10% (17%). The customer's registered office is outside the country.

2) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Note 3

Other operating income

	GROUP	
	2011	2010
Licence income	-	6,271
Insurance compensation	12,647	-
Exchange gains	24,011	27,326
Total	**36,658**	**33,597**

Note 4

Other operating expenses

	GROUP	
	2011	2010
Exchange losses	-17,321	-13,497
Total	**-17,321**	**-13,497**

Note 5

Operational and exploration costs

	GROUP	
	2011	2010 1)
Operating expenses	-221,151	-248,294
Royalties	-166,621	-233,868
Oil tax, operational	-170,403	-53,524
Exploration and project expenses	-35,687	-129,410
Total	**-593,862**	**-665,096**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Note 6

Employee benefits expenses

	2011		2010	
	Employees	Male	Employees	Male
AVERAGE NUMBER OF EMPLOYEES				
Parent	-	-	-	-
Subsidiaries				
Sweden	19	11	18	12
United Kingdom	13	10	14	12
Norway	12	11	12	11
Total, Group	**44**	**32**	**44**	**35**

	2011	2010
Executive management, Group	**12**	**15**
GENDER DISTRIBUTION, EXECUTIVE MANAGEMENT - FEMALE REPRESENTATION		
Parent		
Board	0%	0%
Other senior executives	0%	0%
Total, Group		
Board	0%	0%
Other senior executives	14%	0%

	2011		2010	
	Senior executives	Other employees	Senior executives	Other employees
SALARIES AND OTHER BENEFITS				
Parent Company	-	-	-	-
Subsidiaries				
Sweden	14,282	17,022	12,713	15,915
-of which bonuses to senior executives	1,857	-	1,919	-
Norway	2,032	14,073	2,221	13,039
-of which bonuses to senior executives	249	-	231	-
Subsidiaries total	**16,314**	**31,095**	**14,934**	**28,954**
Group total	**16,314**	**31,095**	**14,934**	**28,954**
OTHER PERSONNEL COSTS				
Subsidiaries				
Pension costs	3,446	5,207	2,862	4,823
Subsidiaries total	**3,446**	**5,207**	**2,862**	**4,823**
Group total	**3,446**	**5,207**	**2,862**	**4,823**
Other personnel costs				
Subsidiaries	17	5,608	526	4,587
Group total	**17**	**5,608**	**526**	**4,587**
Subtotal	**19,777**	**41,910**	**18,322**	**38,364**
Social security contributions, total		**10,256**		**9,304**
Personnel costs, total		**71,943**		**65,990**

The CEO of SPE AB (and Petroswede AB) has a formally agreed period of notice of 12 months from the Company's side. Pension premiums amount to 30 per cent of pensionable salary with regard to retirement pension and survivors' pension. Pensionable salary means the basic salary plus an average of the variable pay over the last three years. Other senior executives (not Board members) have the same type of pension arrangement, but at a lower percentage.

Note 7

Auditors' fees and other remuneration

	2011	2010
FEES TO AUDITORS DURING THE YEAR		
KPMG		
Annual audit	1,286	1,596
Other audit services	-	-
Tax advisory services	1,107	649
Other services	93	81
Other auditors		
Annual audit	162	17
Other audit services	-	-
Other services	479	-
Total	**3,127**	**2,343**

Note 8

Finance income and costs

	GROUP	
	2011	2010[1)]
Net gain from distribution of shares in Petrogrand AB	16,555	3,345
Interest income on bank deposits	17,166	27,460
Finance income	**33,721**	**30,805**
Net exchange differences	-12,336	-9,784
Interest expense on financial liabilities measured at amortised cost	-45,650	-56,335
Present value adjustment of provisions (Note 19)	-4,359	-3,557
Finance costs	**-62,345**	**-69,676**

Note 9

Taxes

	GROUP	
	2011	2010[1)]
SPECIFICATION OF TAX EXPENSE		
Tax expense/income for the period	-40,439	-84,179
Adjustment of tax in respect of prior years	3,560	11,538
Current tax expense	**-36,879**	**-72,641**
Deferred tax from temporary differences	-142,045	-12,193
Deferred tax expense	**-142,045**	**-12,193**
Total recognised tax expense for Group	**-178,924**	**-84,834**
Reconciliation of effective tax Group		
Profit before tax	811,415	469,271
Tax at Swedish enacted tax rate 26.3%	-213,402	-123,418
Non-deductible expenses	-1,791	-3,036
Non-taxable income	11,684	995
Tax effect of deduction for petroleum tax	-34,548	13,813
Effect of different tax rates for foreign subsidiaries	2,853	2,323
Calculated petroleum tax (50%) Norway	51,996	29,439
Other items	724	-16,488
Tax attributable to prior years	3,560	11,538
Recognised tax expense	**-178,924**	**-84,834**
Effective tax	**-22.1%**	**-18.1%**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	Deferred tax asset	Deferred tax liability	Net
RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES			
Deferred tax assets and liabilities relate to the following items:			
Group			
31/12/2010 [1)]			
Exploration costs	-	-532,257	-532,257
Oil and gas assets	-	-350,551	-350,551
Equipment	536	-	536
Other long-term receivables (pension fund)	331	-	331
Provisions for abandonment	-	-2,376	-2,376
	867	-885,184	-884,317
Offsetting	-867	867	-
	0	-884,317	-884,317
Group			
31/12/2011			
Exploration costs	-	-667,440	-667,440
Oil and gas assets	-	-360,162	-360,162
Equipment	-	-	-
Other long-term receivables (pension fund)	-	-332	-332
Provisions for abandonment	-	-777	-777
	-	-1,028,711	-1,028,711
Offsetting	-	-	-
	-	-1,028,711	-1,028,711

Non-recognised deferred tax assets

Deductible temporary differences and tax loss carry-forwards for which deferred tax assets have not been recognised in the statement of comprehensive income or statement offinancial position:

	GROUP	
	2011	2010
Tax effect (tax credits)	95,611	65,012
Total	**95,611**	**65,012**

Deductible temporary differences relate to foreign tax credits (which can can be saved for up to five years). Deferred tax assets have not been recognised for these tax credits, as it is not probable that the Group will be able to offset them against future taxable profits.

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	Amount at beginning of year	Disclosed in income statement	Other changes	Amount at end of year
CHANGES IN DEFERRED TAX ON TEMPORARY DIFFERENCES AND LOSS CARRYFORWARDS				
Group				
31/12/2010 1)				
Exploration costs	-603,671	34,066	37,348	-532,257
Oil and gas assets	-309,015	-44,353	2,817	-350,551
Equipment	537	152	-153	536
Other long-term receivables	637	-438	132	331
Provisions for abandonment	-336	-1,621	-419	-2,376
	-911,848	-12,194	39,725	-884,317

Other changes of SEK 39,725 thousand relate to exchange rate effects.

	Amount at beginning of year	Disclosed in income statement	Other changes	Amount at end of year
Group				
2011-12-31				
Exploration costs	-532,257	-133,200	-1,983	-667,440
Oil and gas assets	-350,551	-9,245	-366	-360,162
Equipment	536	-536	-	-
Other long-term receivables	331	-663	-	-332
Provisions for abandonment	-2,376	1,599	-	-777
	-884,317	-142,045	-2,349	-1,028,711

Other changes of SEK -2,349 thousand relate to exchange rate effects.

Note 10

Depreciation

	GROUP	
	2011	2010
Depreciation		
Oil and gas assets		
Cobo/Pambi	-	2,076
Oombo	1,900	4,627
Ivory Coast	155,918	307,091
Nigeria	-	134,796
Equipment	2,209	3,673
Total depreciation	**160,027**	**452,263**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Note 11

Intangible assets

	GROUP	
	31/12/2011	31/12/2010
EXPLORATION COSTS		
Opening cost	2,558,254	2,326,808
Exchange differences	26,947	-126,234
Purchases	790,072	357,680
Closing accumulated cost	**3,375,273**	**2,558,254**
Opening impairment	-345,792	-105,856
Exchange differences	-2,078	6,658
Impairment for the year	-	-246,594
Closing accumulated impairment	**-347,870**	**-345,792**
Carrying amount at end of period	**3,027,403**	**2,212,462**
CARRYING AMOUNT PER FIELD		
Block 362, Norway	253,763	239,655
Block 442, Norway	118,602	106,687
Block 272, Norway	147,035	4,868
Block 512, Norway	52	52
Block 521, Norway	25,463	24,383
Block 549S, Norway	26	26
Block 553, Norway	3	78
Block 554, Norway	12,492	-
Block 583, Norway	45,156	-
OPL 214, Nigeria	1,486,696	1,418,791
Blocks 8 and 23, Angola	743,251	257,278
Guinea Bissau, Block 2, 4A and 5A	154,639	124,611
Marine IV, Congo	40,225	36,033
	3,027,403	**2,212,462**

The purchase includes the value of exploration costs which were capitalised pending an evaluation of commercially extractable reserves.

Note 12

Tangible fixed assets

	GROUP		
	Oil and gas assets	Equipment	Total
Opening cost, 1 Jan 2010	3,537,816	26,053	3,563,869
Exchange differences	-165,640	-2,994	-168,634
Purchases	3,161	1,614	4,775
Closing accumulated cost, 31 Dec 2010	**3,375,337**	**24,673**	**3,400,010**
Exchange differences	49,974	-11	49,963
Purchases	17,173	701	17,874
Disposals	-35,962	-4,584	-40,546
Closing accumulated cost, 31 Dec 2011	**3,406,522**	**20,779**	**3,427,301**
Opening depreciation, 1 Jan 2010	-1,351,724	-7,520	-1,359,244
Exchange differences	53,111	528	53,639
Depreciation for the year	-201,998	-3,671	-205,669
Closing accumulated depreciation, 31 Dec 2010	**-1,500,611**	**-10,663**	**-1,511,274**
Exchange differences	-18,094	503	-17,591
Depreciation for the year	-157,818	-2,209	-160,027
Disposals	35,962	4,584	40,546
Closing accumulated depreciation, 31 Dec 2011	**-1,640,561**	**-7,785**	**-1,648,346**
Carrying amount, 31 Dec 2010	**1,874,726**	**14,010**	**1,888,736**
Carrying amount, 31 Dec 2011	**1,765,961**	**12,994**	**1,778,955**

	31/12/2011	31/12/2010
OIL AND GAS ASSETS		
Carrying amount per field		
Cobo/Pambi	4,701	4,701
Oombo	4,669	5,228
Ivory Coast	1,756,591	1,864,797
	1,765,961	**1,874,726**
Carrying amount at end of period		
SPE AB	11,671	11,920
SPE AS	1,323	2,090
	12,994	**14,010**

Note 13

Other securities held as non-current assets

	GROUP	
	31/12/2011	31/12/2010
Opening cost	306	306
Closing accumulated cost	**306**	**306**

Note 14

Other non-current receivables

	GROUP	
	31/12/2011	31/12/2010 1)
Pension fund (see Note 18)	4,037	3,097
Prepaid lease payments	100	81
	4,137	**3,178**

	PARENT	
	31/12/2011	31/12/2010
At beginning of year	214,811	198,236
New lending	17,961	16,575
Carrying amount at end of year	**232,772**	**214,811**

Note 15

Inventories

	GROUP	
	31/12/2011	31/12/2010
Drilling equipment and consumable supplies	74,459	70,114
	74,459	**70,114**

Note 16

Trade receivables

	GROUP	
	31/12/2011	31/12/2010
Trade receivables	137,001	283,868
Trade receivables - net	**137,001**	**283,868**

Trade receivables are non-interest-bearing and are due within 30 days. At the reporting date, there were no past due trade receivables.

Note 17

Prepayments and accrued income

	GROUP	
	31/12/2011	31/12/2010 1)
Prepaid rents	2,450	5,491
Prepaid insurance costs	2,132	-
Prepaid project costs	188,822	171,805
Other costs	6,021	422
Total	**199,425**	**177,718**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Note 18

Pensions, Sweden

Employees in Sweden are covered by defined benefit plans, which means that the employees are guaranteed a pension equal to a certain percentage of salary. Obligations to some of the employees are secured through accounting in the statement of financial position and are funded with KP Stiftelse. The pension plans mainly relate to old-age pension. The assets of the pension funds are valued at market value.

	GROUP	
	31/12/2011	31/12/2010 1)
The amounts in the statement of financial position for defined benefit pension plans have been calculated as follows:		
Present value of funded obligations	-27,297	-24,833
Fair value of plan assets	25,927	26,557
Surplus (plus) or deficit (minus)	**-1,370**	**1,724**
Unrecognised actuarial gains (minus) and losses (plus)	5,407	1,373
Net amount in statement of financial position	**4,037**	**3,097**
The net amount is recognised in the following items in the statement of financial position:		
Other non-current receivables (see Note 14)	4,037	3,097
The amounts in the income statement for defined benefit plans are as follows:		
	2011	2010
Interest expense	-806	-886
Expected return on plan assets	1,153	1,113
Total cost of defined benefit plans	**347**	**227**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	31/12/2011	31/12/2010 1)
The change in the defined benefit obligation during the year is as follows:		
At beginning of year	24,833	25,679
Interest expense	806	886
Actuarial losses (plus) and gains (minus)	3,850	-390
Benefits paid	-2,192	-1,342
At end of year	**27,297**	**24,833**
Change in the fair value of plan assets during the year:		
At beginning of year	26,557	25,312
Expected return on plan assets	1,153	1,113
Actuarial gains (plus) and losses (minus)	-185	601
Contributions	594	873
Benefits paid	-2,192	-1,342
At end of year	**25,927**	**26,557**
Total pension expenses in the statement of comprehensive income for defined-benefit plans were distributed as follows:		
Personnel costs	-	-
Interest income	1,153	1,113
Interest expense	-806	-886
	347	**227**
Specification of net asset changes recognised in the statement of financial position:		
Net asset at beginning of year according to the adopted statement of financial position	3,097	1,997
Net cost recognised in the profit for the year	347	227
Payment of benefits	2,192	1,342
Received contribution from employer to funded plans	-1,599	-469
Net asset at end of year	**4,037**	**3,097**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	31/12/2011	31/12/2010 1)	31/12/2009	31/12/2008	31/12/2007
HISTORICAL INFORMATION					
Present value of funded obligations	-27,297	-24,833	-25,679	-24,245	-26,104
Fair value of plan assets	25,927	26,557	24,395	22,695	22,956
Surplus (plus) or deficit (minus)	**-1,370**	**1,724**	**-1,284**	**-1,550**	**-3,148**
Experience-based adjustment of plan assets	-185	601	1,318	-1,389	52
Experience-based adjustment of defined benefit obligations	227	672	-328	-704	-464
	42	**1,273**	**990**	**-2,093**	**-412**

Significant actuarial assumptions	2011	2010
(expressed as weighted average)		
Discount rate	2.10%	3.40%
Expected return on plan assets	4.50%	4.50%

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Pensions in Norway

Employees in Norway are covered by defined benefit plans, which means that the employees are guaranteed a pension equal to a certain percentage of salary. Obligations to some of the employees are secured through accounting in the statement of financial position and are funded with an insurance company (Storebrand). The pension plans mainly relate to old-age pension. The assets of the pension funds are valued at market value.

	31/12/2011	31/12/2010 1)
The amounts in the statement of financial position for defined benefit pension plans are calculated as follows (comparative figures are reported in the Swedish part):		
Present value of funded obligations	-8,212	-6,041
Fair value of plan assets	4,928	3,689
Surplus (plus) or deficit (minus)	-3,284	-2,352
Unrecognised actuarial gains (minus) and losses (plus)	2,275	1,952
Net amount in statement of financial position	**-1,009**	**-400**
The net amount is recognised in the following items in the statement of financial position:		
Provisions for pensions etc.	-1,009	-400
The amounts recognised in the income statement for defined benefit plans are as follows:		
	2011	2010 1)
Expenses in respect of service during present year	-2,214	-1,501
Interest expense	-194	-130
Expected return on plan assets	113	123
Actuarial losses (plus) and gains (minus)	-84	-
Total cost of defined benefit plans	**-2,379**	**-1,508**
Total pension expense	**-2,379**	**-1,508**
The change in the defined benefit obligation during the year is as follows:		
	31/12/2011	31/12/2010 1)
At beginning of year	6,041	3,032
Expenses in respect of service during present year	2,210	1,501
Interest expense	194	130
Actuarial losses (plus) and gains (minus)	-14	1,737
Tax	-219	-360
Benefits paid	-	-
At end of year	**8,212**	**6,041**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	31/12/2011	31/12/2010 1)
Change in the fair value of plan assets during the year:		
At beginning of year	3,689	2,213
Expected return on plan assets	113	123
Actuarial gains (plus) and losses (minus)	-425	-245
Contributions	1,551	2,523
Benefits paid	-	-925
At end of year	**4,928**	**3,689**

The costs relating to defined benefit plans are recognised in the following lines of the statement of comprehensive income:	2011	2010
Employee benefits	1,551	1,604
Interest income	113	123
Interest expense	-194	-130
	1,470	**1,597**
Specification of net asset changes recognised in the statement of financial position:		
Net liability at beginning of year according to the adopted statement of financial position	-400	-850
Net cost recognised in the profit for the year	-2,379	-1,508
Payment of benefits	-	-925
Received contribution from employer to funded plans	1,770	2,883
Net liability at end of year	**-1,009**	**-400**

HISTORICAL INFORMATION	31/12/2011	31/12/2010 1)
Present value of funded obligations	-8,212	-6,041
Fair value of plan assets	4,928	3,689
Surplus (plus) or deficit (minus)	**-3,284**	**-2,352**
Experience-based adjustment of plan assets	113	123
Experience-based adjustment of defined benefit obligations	-84	-
Comparative year, see Swedish section.	**29**	**123**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

	2011	2010
SIGNIFICANT ACTUARIAL ASSUMPTIONS (EXPRESSED AS WEIGHTED AVERAGE)		
Discount rate	3.30%	3.20%
Expected return on plan assets	4.80%	4.60%
Consolidated figures for the group		
Total cost of defined benefit plans	-2,033	-1,281
Total cost of defined contribution plans	-2,872	-6,405
Total pension cost	**-4,905**	**-7,686**

Defined contribution plans

In Sweden, the group have defined contribution plans for employees that in full are paid for by the employer. Payment is done on a regular basis according to the rules in each plan.

Note 19

Other provisions

	GROUP	
	31/12/2011	31/12/2010
PROVISIONS FOR ABANDONMENT COSTS		
Opening balance	60,597	60,588
Present value adjustment (Note 8)	4,359	3,557
Exchange differences	-954	-3,548
Closing balance	**64,002**	**60,597**
Provisions per field		
Cobo/Pambi	18,575	18,253
Oombo	8,470	7,808
Ivory Coast	36,957	34,536
	64,002	**60,597**
Other provisions		
Actuarial provision	**2,769**	**9,523**
Total, Group	**66,771**	**70,120**

The abandonment provision relates to expenses to shut down an oil field at the end of its life. The abandonment expenses are expected to be incurred between 2011 and 2038.

Note 20

Other liabilities

	GROUP	
	31/12/2011	31/12/2010
Project items	15,481	49,959
Other items	7,929	6,074
Total	**23,410**	**56,033**

Project items relate to accrued expenses from operator of SEK 15.5 (49.9) million.

Note 21

Accruals and deferred income

	GROUP	
	31/12/2011	31/12/2010
Accrued personnel expenses	13,068	8,384
Accrued project expenses	535,361	319,948
Other items	14,780	16,486
Total	**563,209**	**344,818**

Note 22

Financial risks and policies

The Group is exposed to a number of financial risks, the most important of which are described below. It is Group management's responsibility to manage risks according to the policy adopted by the Board. The Group has a centralised finance function which has the primary task of identifying, limiting and managing financial risks in a cost-efficient manner. The Group actively pursues liquidity planning, to continuously evaluate the need for liquidity. The main objective of this centralisation is to ensure good internal cost control as well as administrative and financial economies of scale.

Currency risk

The Group's business is international and, as such, it is exposed to currency risk in terms of exchange rate fluctuations. The foreign exchange exposure comprises transaction as well as translation risk.

- The transaction risk, i.e. the risk that the commercial cash flows (revenues, expenses,investments, etc.) will be negatively affected by exchange rate fluctuations.
- Translation risk, i.e. the risk that earnings in the Group will be negatively affected by the translation of foreign entities' assets and liabilities into the Group's reporting currency. It is the opinion of the Board that the present strong financial position justifies the policy of not hedging foreign exchange rates.

Transaction exposure

The Group's transaction exposure for 2011 was divided into the following currencies:

	USD (Thousands)
Sales	235,535
Operating expenses	-94,211
Net	141,324
Of which hedged	-

The Group's transaction exposure for 2010 was divided into the following currencies:

	USD (Thousands)
Sales	209,005
Operating expenses	-96,539
Net	112,466
Of which hedged	-

Translation exposure

Foreign net assets, as a percentage of total equity, divided into the following currencies:

	2011 Amount	%	2010 Amount	%	2009 Amount	%
Group Currency						
USD Thousands	447,917	72	349,024	62	318,003	54
NOK Thousands	88,775	3	112,966	3	130,720	4

At 31 December, the Group did not have any hedging of net investments in foreign Group companies. The ambition is to minimise the translation risk wherever possible and economically viable.

Interest rate risk
Interest rate risk is the risk that changes in market interest rates that will have a negative effect on the Group's earnings. All interest-bearing assets and liabilities have a fixed-interest term of less than 12 months. The current assessment is that the Group's present financial position justifies the absence of longer fixed-interest terms.

Oil price risk
The Group's revenues, and hence its earnings, are highly dependent on oil prices. Historically, oil prices have fluctuated sharply – a trend which is expected to continue – and are affected by a number of factors beyond the Group's control. The Group's policy is to harness the positive effects of fluctuating oil prices and minimise the negative effects as far as possible. Consequently, the ability to use put options in particular as a hedging instrument is continuously evaluated.

The Group did not have any outstanding hedging instruments at the end of 2011.

Credit and counterparty risk
Credit and counterparty risk is the risk that a counterparty in a financial transaction will be unable to discharge its obligations, which in turn will have a negative effect on the Group's earnings. The Group's commercial credit risk is limited, as there is no significant customer concentration and the counterparties are reputable and transparent multi-national companies. Financial credit risk is mitigated by only accepting counterparties with a high credit rating and through diversification.

The Group did not have any past due trade receivables at 31 December 2011. No provision for impairment has been made, as the carrying amount is estimated to be the same as the fair value.

Funding and liquidity risk
Funding and liquidity risk is the risk that costs will rise and funding options will be insufficient when loans are renewed or applied for, and the risk that payment obligations will not be met due to insufficient liquidity. At the end of 2011, the Group had substantial cash reserves, including financial investments. There are discussions in progress with regard to additional credit facilities to safeguard the Group's capacity for increasing oil reserves in the coming years. The Group also utilises the opportunity for the Norwegian operations to raise loans, with the expected tax refund as collateral. Financial liabilities and trade payables are short-term and due within 30 days, and their fair value is assumed to be a reasonable fair value estimation.

Insurance
Insurance is considered to be a premature financing of future risks. The Group has an insurance coverage that is in line with industry practice and mainly covers production facilities and liability exposure in connection with exploration and exploitation of oil and gas. The Group's insurance coverage and its strong financial position mean that it is considered able to manage minor risks as well as risks of major disasters.

Capital management
Capital is defined as total equity. The equity requirement for an oil company is substantial and is related to the large volume of investment and the risk inherent in the different exploration projects carried out during the year. It is the Board's judgement that the equity of the Group is sufficient for the scope of its activities.

There were no changes to the Group's capital management during the year. Neither the Parent Company nor its subsidiaries are subject to external capital requirements.

Sensitivity analysis
In order to manage interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on its results. In the long term, however, permanent changes in exchange rates, oil prices and interest rates will have an impact on the consolidated results.

Based on volumes of crude oil sold (2.4 million barrels) in 2011, it is estimated that:

- A USD 10 decrease in the price of oil would have reduced the Group's profit before tax by SEK 74 million.

- A general increase of 1 percent in the value of the SEK against other currencies would have reduced the Group's profit before tax by SEK 8 million.

The effect of a general change in interest rates is regarded as negligible for the Group.

Measurement of fair value

The following description is a summary of the main methods and assumptions used in determining the fair value of the financial instruments in the tables below.

Trade receivables and payables

The nominal value, less any estimated credits to trade receivables and payables, is deemed to reflect the fair value.

Interest-bearing liabilities

The Group's interest-bearing liabilities serve the purpose of funding oil projects. They are short-term in nature and the interest rate is determined based on market rates plus risk premium. Consequently, the fair value is estimated as corresponding to the carrying amount.

CARRYING AMOUNT OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY 2010 [1)]

Group

	Loans and receivables	Held-to-maturity investments	Other liabilities	Total carrying amount	Fair value
Financial assets					
Other long-term receivables	3,178	-	-	3,178	3,178
Trade receivables	283,868	-	-	283,868	283,868
Financial investments	-	306	-	306	306
Other receivables	107,111	-	-	107,111	107,111
Cash and cash equivalents	621,832	-	-	621,832	621,832
Carrying amount per category	**1,015,989**	**306**	**-**	**1,016,295**	**1,016,295**
Financial obligations					
Trade payables	-	-	88,443	88,443	88,443
Other liabilities	-	-	56,033	56,033	56,033
Carrying amount per category	**-**	**-**	**144,476**	**144,476**	**144,476**

CARRYING AMOUNT OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY 2011

Group

	Loans and receivables	Held-to-maturity investments	Interest-bearing liabilities	Other liabilities	Total carrying amount	Fair value
Financial assets						
Other long-term receivables	4,137	-	-	-	4,137	4,137
Trade receivables	137,001	-	-	-	137,001	137,001
Financial investments	-	306	-	-	306	306
Other receivables	293,816	-	-	-	293,816	293,816
Cash and cash equivalents	419,046	-	-	-	419,046	419,046
Carrying amount per category	**854,000**	**306**	**-**	**-**	**854,306**	**854,306**
Financial obligations						
Trade payables	-	-	-	70,870	70,870	70,870
Other liabilities	-	-	-	23,410	23,410	23,410
Carrying amount per category	**-**	**-**	**-**	**94,280**	**94,280**	**94,280**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

Note 23

Operating leases

	GROUP	
	2011	2010
Minimum lease payments	5,458	8,844
Contingent rents	132,632	153,920
Total lease costs	**138,090**	**162,764**
Agreed future minimum lease payments under non-cancellable lease payments fall due as follows:		
Within one year	131,518	150,569
Between one and five years	449,880	489,317
	581,398	**639,886**

The Group leases office premises in the UK, Norway and Sweden, and a Floating Production Storage and Offload (FPSO) ship in Ivory Coast under operating leases. The contingent rents have been defined by contract. The lease agreement for the FPSO ship runs for 10 years, with a renewal option.

Note 24

Investment obligations

	31/12/2011	31/12/2010
Group		
At the reporting date, contracted investments not yet recognised in the financial statements were as follows:		
Oil and gas assets	1,111,602	1,128,467
	1,111,602	**1,128,467**

Contracted investments relate to investments during the remaining life of the fields. The abandonment expenses are expected to be incurred between 2011 and 2038.

Note 25

Pledged assets and contingencies

	GROUP	
	31/12/2011	31/12/2010
Pledged assets, bank guarantees	41,540	245,570

Pledged assets comprise bank guarantees related to the acquisition of licence shares of oil fields in Nigeria in the amount of SEK 41.5 (108.8) million and oil fields in Angola in the amount of SEK 0 (136.7) million.

	GROUP	
	31/12/2011	31/12/2010
Contingent liabilities	41,755	41,755

The Swedish Tax Agency did not allow foreign tax credit for the entire amount of foreign tax (47%), but only a proportion (27%). The Group company SPECI AB appealed against the decision to the Stockholm County Court. The Court rejected the appeal for full deduction of 47% and upheld the 27% decision. An appeal against the Court's judgement has been been taken to the Administrative Court of Appeal, as it is the Company's view that the entire foreign tax (47%) should qualify for foreign tax credit. An extension for payment of tax, amounting to SEK 41.7 million, has been granted.

Note 26
Related parties

Related party relationships
Related party relationships where control exists:

Group
The Group is under the control of Moroncha Holdings Ltd. (Cyprus).

Parent company
In addition to the related party relationships described for the Group, the Parent Company has control of the subsidiary Svenska Petroleum Exploration AB and its directly and indirectly owned subsidiaries. See note 27.

Other related parties
Petroswede AB and Petroswede Group are 100% controlled by companies owned by Sheik Mohammed H. Al-Amoudi. Corral Petroleum Holdings AB a wholly-owned subsidiary of Moroncha Holdings Ltd. (Cyprus) and a fellow-subsidiary with Petroswede AB. Corral Petroleum Holdings AB owns 100% of Preem Group.

Purchases of services from related parties relate to services for office management purchased from Midroc Real Estate AB SEK 3,356 (3,258) thousand.

Related party transactions

	Year	Sale of goods to related parties	Purchase of services from related parties	Due from related parties at 31 December	Due to related parties at 31 December
Group					
Other related parties	2011	-	3,356	-	-
Other related parties	2010	-	3,258	-	-
Other related parties	2009	-	6,194	-	-

Transactions with related parties are priced on commercial terms.

Remuneration of key management personnel:
The total remuneration of the CEO and the Board is shown in Note 6.

Note 27

Investments in Group companies

Specification of change in shares in subsidiaries relating to Swedish Petroleum Exploration AB

	31/12/2011	31/12/2010	01/01/2010
Opening carrying amount	850,000	850,000	850,000
Group contribution paid	-	-	11,311
Impairment	-	-	-11,311
Closing carrying amount	**850,000**	**850,000**	**850,000**

	Share of equity	Share of votes	Nominal value	Number of shares	Carrying amount
Directly owned					
Svenska Petroleum Exploration AB	100%	100%	50,000	500,000	850,000

	Corp. ID	Reg'd office
CORP. ID AND REGISTERED OFFICE		
Directly and indirectly owned		
Svenska Petroleum Exploration AB	556093-2583	Stockholm
- Oljeprospektering AB	556126-4671	Stockholm
- Svenska Petroleum Exploration AS	910229958	Oslo, Norway
- Petroswede Insurance Company Ltd	266707	Dublin, Ireland
- Svenska Petroleum Exploration U.K. Ltd (dormant)	1191501	London, UK
- SPE Angola AB	556594-2553	Stockholm
- Svenska Petroleum Exploration Congo AB	556710-9441	Stockholm
- SPE New Ventures AB	556820-2963	Stockholm
- SPE Nigeria AB	556594-2512	Stockholm
-- Svenska Nigerian Holdings Ltd	36352	Bermuda
--- Svenska Nigerian Investment LLC		Nevis
-- Svenska Nigeria Exploration & Production Ltd		Nigeria
-- Svenska Nigerian Holdings II Ltd		Bermuda
--- Svenska Nigerian Investments 2 LLC	4065788	Delaware
--- Svenska Nigeria (Deepwater 1) Limited		Nigeria
- SPE Guinea Bissau AB	556710-9458	Stockholm
-- Svenska of Guinea Bissau Ltd		Bermuda
--- Svenska of Guinea Bissau LLC		Nevis
-- SPE West Africa BV NL		The Hague, Netherlands
- Svenska Petroleum Exploration CI Holding AB	556688-3541	Stockholm
-- Svenska Petroleum Exploration CI AB	556665-4884	Stockholm
--- Svenska Petroleum Exploration CI Finance AB	556635-2935	Stockholm

Directly-owned subsidiary of Svenska Petroleum Exploration AB marked (-), indirectly owned marked (--) and (---).

Note 28

Critical accounting estimates

Some of the critical accounting estimates used when applying the Group's accounting policies are described below.

Impairment testing

In calculating the recoverable amount of oil fields when testing fixed assets for impairment, or reversal of impairment, a number of estimates and assumptions about future conditions have been made. These estimates and assumptions mainly concern the life of the fields, the choice of discount rate and the future oil price. Major changes in the underlying conditions for these assumptions during 2011 may have a material effect on the value of the assets.

Effect of changes in the basis of calculation

Changes in the basis of the calculations regarding costs and commercial reserves that affect the unit-of-production calculations for depreciation and abandonment will have an immediate effect on the results of the Group.

Note 29

Additional cash flow analysis disclosures

	2011	2010 [1]
Group		
Adjustments for non-cash items		
Depreciation and impairment	160,027	452,263
Oil tax [2]	-235,323	-73,915
Other provisions	-3,861	9,636
Unrealised exchange differences	145	21,744
Total	**-79,012**	**409,728**
Cash and cash equivalents		
The following components are included in cash & cash equivalents:		
Cash and bank balances	419,046	621,832
Total	**419,046**	**621,832**

1) Comparative figures have been restated due to changed accounting policies for revenue recognition and reclassifications, see changes in equity on page 6, accounting policies on page 12 and restatement tables, Note 31.

2) Oil tax is a general tax that is treated in the cash flow as an operational settlement.

Note 30

Events after the end of the financial year

On 17 January 2012, the Norwegian Ministry of Petroleum and Energy announced that the Group had been granted a 25-per cent interest in the PL 035C exploration licence on the Norwegian continental shelf, as part of the award of licences in pre-defined areas (APA 2011).

Note 31

Effects of the transition in 2010 income statement and balance sheet under IAS 18, revenue, IAS 21 the effects of changes in foreign exchange rates and reclassifications.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in SEK thousands)

		RESTATED					
	Jan-Dec 2010	Revenue recognition 2010	Revenue recognition 2009	Oil tax, operational	Pension liability 1)	Changed method of currency translation 2)	Restated Jan-Dec 2010
Net sales	1,753,021	57,000	-26,406	-	-	-	1,783,615
Other operating income	33,597	-	-	-	-	-	33,597
	1,786,618	**57,000**	**-26,406**	**-**	**-**	**-**	**1,817,212**
Stock variation	-35,965	-	-	-	-	-	-35,965
Operational and exploration costs	-581,437	-31,000	865	-53,524	-	-	-665,096
Other external costs	-76,259	-	-	-	-	-	-76,259
Employee benefits expenses	-65,990	-	-	-	-	-	-65,990
Depreciation	-452,263	-	-	-	-	-	-452,263
Other operating expenses	-13,497	-	-	-	-	-	-13,497
Operating profit/loss	**561,207**	**26,000**	**-25,541**	**-53,524**	**-**	**-**	**508,142**
Finance income	30,805	-	-	-	-	-	30,805
Finance costs	-157,024	-	-	-	-	87,348	-69,676
Net financial items	**-126,219**	**-**	**-**	**-**	**-**	**87,348**	**-38,871**
Profit before tax	434,988	26,000	-25,541	-53,524	-	87,348	469,271
Tax on profit for the year	-137,967	-9,049	8,658	53,524	-	-	-84,834
PROFIT/LOSS FOR THE YEAR	**297,021**	**16,951**	**-16,883**	**-**	**-**	**87,348**	**384,437**
Other comprehensive income							
Exchange differences for the year	-138,969	-	-	-	-	-87,348	-226,317
Other comprehensive income for the year	**-138,969**	**-**	**-**	**-**	**-**	**-87,348**	-226,317
Comprehensive income for the year	**158,052**	**16,951**	**-16,883**	**-**	**-**	**-**	**158,120**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December (Amounts in SEK thousands)

		RESTATED					
	31/12/2010	Revenue recognition 2010	Revenue recognition 2009	Oil tax, operational	Pension liability 1)	Changed method of currency translation 2)	Restated 31/12/2010
ASSETS							
Intangible assets	2,212,462	-	-	-	-	-	2,212,462
Tangible fixed assets	**1,888,736**	**-**	**-**	**-**	**-**	**-**	**1,888,736**
Financial investments	306	-	-	-	-	-	306
Other non-current receivables	2,778	-	-	-	400	-	3,178
Total non-current assets	**4,104,282**	**-**	**-**	**-**	**400**	**-**	**4,104,682**
Current assets							
Inventories	70,114	-	-	-	-	-	70,114
Trade receivables	283,868	-	-	-	-	-	283,868
Prepayments and accrued income	**151,718**	**26,000**	**-**	**-**	**-**	**-**	**177,718**
Other receivables	107,111	-	-	-	-	-	107,111
Tax receivables	81,285	-	-	-	-	-	81,285
Cash and cash equivalents	621,832	-	-	-	-	-	621,832
Total current assets	**1,315,928**	**26,000**	**-**	**-**	**-**	**-**	**1,341,928**
TOTAL ASSETS	**5,420,210**	**26,000**	**-**	**-**	**400**	**-**	**5,446,610**

		RESTATED			
	31/12/2009	Revenue recognition 2009	Revenue recognition 2008	Changed method of currency translation 2)	Restated 01/01/2010
ASSETS					
Intangible assets	2,220,952	-	-	-	2,220,952
Tangible fixed assets	**2,204,625**	**-**	**-**	**-**	**2,204,625**
Financial investments	306	-	-	-	306
Other non-current receivables	1,238	-	-	-	1,238
Total non-current assets	**4,427,121**	**-**	**-**	**-**	**4,427,121**
Current assets					
Inventories	71,658	-	-	-	71,658
Trade receivables	310,414	-	-	-	310,414
Prepayments and accrued income	**155,822**	**25,540**	**-**	**-**	**181,362**
Other receivables	73,648	-	-	-	73,648
Tax receivables	243,842	-	-	-	243,842
Cash and cash equivalents	372,216	-	-	-	372,216
Total current assets	**1,227,600**	**25,540**	**-**	**-**	**1,253,140**
TOTAL ASSETS	**5,654,721**	**25,540**	**-**	**-**	**5,680,261**

	31/12/2010	RESTATED Revenue recognition 2010	Revenue recognition 2009	Oil tax, operational	Pension liability 1)	Changed method of currency translation 2)	Restated 31/12/2010
EQUITY AND LIABILITIES							
Equity							
Share capital	103	-	-	-	-	-	103
Other paid-in capital	186,942	-	-	-	-	-	186,942
Reserves	-95,620	-	-	-	-	-87,348	-182,968
Retained earnings, incl. profit/loss for the year	3,749,254	16,951	-	-	-	87,348	3,853,553
Total equity	**3,840,679**	**16,951**	**-**	**-**	**-**	**-**	**3,857,630**
Liabilities							
Deferred tax liabilities	875,268	9,049	-	-	-	-	884,317
Provisions for pensions etc.	-	-	-	-	400	-	400
Other provisions	70,120	-	-	-	-	-	70,120
Total non-current liabilities	**945,388**	**9,049**	**-**	**-**	**400**	**-**	**954,837**
Trade payables	88,443	-	-	-	-	-	88,443
Other liabilities	56,033	-	-	-	-	-	56,033
Accruals and deferred income	344,818	-	-	-	-	-	344,818
Current tax liabilities	144,849	-	-	-	-	-	144,849
Total current liabilities	**634,143**	**-**	**-**	**-**	**-**	**-**	**634,143**
Total liabilities	**1,579,531**	**9,049**	**-**	**-**	**400**	**-**	**1,588,980**
TOTAL EQUITY AND LIABILITIES	**5,420,210**	**26,000**	**-**	**-**	**400**	**-**	**5,446,610**

	31/12/2009	RESTATED Revenue recognition 2009	Revenue recognition 2008	Changed method of currency translation 2)	Restated 01/01/2010
EQUITY AND LIABILITIES					
Equity					
Share capital	103	-	-	-	103
Other paid-in capital	186,942	-	-	-	186,942
Reserves	43,349	-	-	-	43,349
Retained earnings, incl. profit/loss for the year	3,992,233	16,883	-	-	4,009,116
Total equity	**4,222,627**	**16,883**	**-**	**-**	**4,239,510**
Liabilities					
Deferred tax liabilities	903,191	8,657	-	-	911,848
Provisions for pensions etc.	-	-	-	-	-
Other provisions	63,473	-	-	-	63,473
Total non-current liabilities	**966,664**	**8,657**	**-**	**-**	**975,321**
Trade payables	15,939	-	-	-	15,939
Other liabilities	115,643	-	-	-	115,643
Accruals and deferred income	223,506	-	-	-	223,506
Current tax liabilities	110,342	-	-	-	110,342
Total current liabilities	**465,430**	**-**	**-**	**-**	**465,430**
Total liabilities	**1,432,094**	**8,657**	**-**	**-**	**1,440,751**
TOTAL EQUITY AND LIABILITIES	**5,654,721**	**25,540**	**-**	**-**	**5,680,261**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December (Amounts in SEK thousands)

	Share capital	Other paid-in capital	Translation differences	Retained earnings incl. profit/loss for the year	Total equity
Closing equity, 31 Dec 2009	**103**	**186,942**	**43,349**	**3,992,233**	**4,222,627**
Restated 2009	-	-	-	16,883	16,883
Restated opening balance	**103**	**186,942**	**43,349**	**4,009,116**	**4,239,510**
Profit/loss for the year	-	-	-	384,437	384,437
Other comprehensive income for the year	-	-	-226,317	-	-226,317
Dividend paid	-	-	-	-540,000	-540,000
Closing equity, 31 Dec 2010	**103**	**186,942**	**-182,968**	**3,853,553**	**3,857,630**

Restatement table taken from:

- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
- Note 1 Significant accounting policies
- Note 2 Segment reporting
- Note 5 Operational and exploration costs
- Note 8 Finance income and costs
- Note 9 Taxes
- Note 14 Other non-current receivables
- Note 17 Prepayments and accrued income
- Note 18 Pensions

1) With effect from 2010, pensions have been reclassified to gross accounting to make it clear that there are two different pension plans, one in Sweden and one in Norway; the figure refers to the accumulated gross amount at 31 December 2010. With effect from 2010, the method of accounting for exchange differences arising on foreign currency loans and which relate to investments in independent foreign operations has changed. The loan is intragroup in its entirety.

2) With effect from 2010, the method of accounting for exchange differences arising on foreign currency loans and which relate to investments in independent foreign operations has changed. The loan is intragroup in its entirety.

Effects 2011

The new revenue recognition had an effect of SEK -15,553 thousands on net sales and SEK 1,244 thousands on operational oil tax in 2011. The tax effect is expected to be SEK 0 due to the Group's tax position. Pre-paid expenses and accrued income have been positively affected with SEK 38,130 thousands in connection with the new revenue recognition accounting. Changed method of currency translation, i.e. exchange differences have affected the financial net positively with SEK 25,275 thousands and have affected the translation difference reserve in equity with the corresponding amount.

STOCKHOLM, 27 MARCH 2012

Mohammed Al-Amoudi
Chairman

Jason Milazzo
Vice Chairman

Richard Öhman

Fredrik Öhrn
President & CEO

Our Audit Report was submitted on 27 March 2012.
KPMG AB

Cronie Wallquist
Authorised Public Accountant