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**NORECO NORWAY AS**  
THIRD QUARTER  
2016

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# REPORT FOR THE THIRD QUARTER 2016

NORECO NORWAY AS

## SUMMARY

- The transaction with Det Norske Oljeselskap ASA (Detnor) was completed 30 June 2016 and the settlement with Detnor was finalised during the quarter.
- Following the transaction all hydrocarbon activities in Noreco Norway has ceased and the company is focusing on settling the outstanding Bond debt in accordance with the approved proposal 16 March 2016.

## BUSINESS DEVELOPMENT

On 30 June 2016 Noreco Norway announced that the transaction with Det Norske Oljeselskap ASA (Detnor) had received government approval and the deal was completed on that date.

In accordance with the approved bondholder proposal of 16 March 2016 the company announced 23 September 2016 that Noreco Norway would repay NOK 18 million following the settlement with Detnor.

## OUTLOOK

In accordance with the previous announcements Noreco Norway now has ceased all activities and is concentrating on settlement of the outstanding bond debt through monetising the tax loss and other remaining assets.

## FINANCIALS

**Other operating expenses** from continued operations mainly consist of consultancy fees.

**Net financial items** from continued operations amounted to a negative amount of NOK 39 million for the third quarter 2016 and relate to change in fair value and interest on the bond loans. In the same period last year net financial items was an income of NOK 43 million mainly due to change in fair value on bond loans.

**Taxes** from continued operations amounted to an income of NOK 10 million for the third quarter 2016, which corresponds to an average tax rate of 26 per cent. Noreco Norway has a marginal tax rate of 78 per cent, of which 27 per cent relates to the ordinary tax rate in Norway and 51 per cent relates to the special tax rate related to exploration and production activities in Norway. The deferred tax asset is computed using the newly enacted tax rates for 2016 (25 per cent/53 percent).

**Loss from discontinued operation** in third quarter amounted to NOK 3 million compared to a loss of NOK 23 million for the same period in 2015.

**Net result** for the third quarter of 2016 amounted to a loss of NOK 33 million, compared to a profit of NOK 9 million for the third quarter 2015.

At the end of the third quarter 2016 Noreco Norway had a total of cash and cash equivalents of NOK 2 million.

Equity amounted to a negative amount of NOK 13 million at the end of the period. The equity was at year end 2015 NOK 0 million.

The **bond loan's** book value was NOK 391 million (principal amount NOK 482 million) at the end of the quarter compared to book value of NOK 527 million (principal amount of NOK 637 million) at the end of 2015. The book value of the bond loan is, as of the end of third quarter, based on the expected

repayment of approximately NOK 9 million following the exploration tax refund and approximately NOK 383 million in exit refund as described in the approved bondholder proposal as of 16 March 2016.

The company's **exploration loan** amounted to NOK 107 million at the end of the quarter, compared to NOK 110 million at the end of 2015. Total interest-bearing debt at the end of the quarter had a book value of NOK 504 million (principal amount of NOK 595 million). See note 10 for further information.

## RISKS AND UNCERTAINTIES

Investment in Noreco Norway involves risks and uncertainties as described in the board of director's report and note 3 to the annual report 2015 of Norwegian Energy Company ASA. The most significant risks Noreco Norway is facing for the next twelve months are related to tax.

## GOVERNANCE AND ORGANISATION

In connection with the transfer of the petroleum activities to Detnor all employees in Noreco Norway has been transferred to Detnor. As a consequence the company no longer has any employees.

# STATEMENT OF COMPREHENSIVE INCOME

NOK million	Note	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015	2015
<b>Continued operations</b>						
Revenue		-	-	-	-	-
Other operating expenses	3	(1)	(0)	(4)	(0)	(7)
<b>Total operating expenses</b>		<b>(1)</b>	<b>(0)</b>	<b>(4)</b>	<b>(0)</b>	<b>(7)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>		<b>(1)</b>	<b>(0)</b>	<b>(4)</b>	<b>(0)</b>	<b>(7)</b>
<b>Net operating result (EBIT)</b>		<b>(1)</b>	<b>(0)</b>	<b>(4)</b>	<b>(0)</b>	<b>(7)</b>
Financial income	4	1	53	1	332	337
Financial expenses	4	(40)	(10)	(45)	(151)	(262)
<b>Net financial items</b>		<b>(39)</b>	<b>43</b>	<b>(44)</b>	<b>181</b>	<b>75</b>
<b>Result before tax (EBT)</b>		<b>(39)</b>	<b>43</b>	<b>(48)</b>	<b>181</b>	<b>68</b>
Income tax benefit / (expense)	5	10	(12)	12	(49)	(18)
<b>Net result for the period (continued operation)</b>		<b>(30)</b>	<b>32</b>	<b>(36)</b>	<b>132</b>	<b>50</b>
<b>Discontinued operation</b>						
Profit (loss) from discontinued operation (net of income tax)	2	(3)	(23)	23	(128)	(287)
<b>Net result for the period</b>		<b>(33)</b>	<b>9</b>	<b>(13)</b>	<b>4</b>	<b>(237)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>(33)</b>	<b>9</b>	<b>(13)</b>	<b>4</b>	<b>(237)</b>

# STATEMENT OF FINANCIAL POSITION

NOK million	Note	30.09.16	31.12.15
<b>Non-current assets</b>			
Deferred tax assets	5	370	350
Property, plant and equipment	7	0	(0)
Tax refund	5	0	(0)
Restricted cash	9,12	2	2
<b>Total non-current assets</b>		<b>373</b>	<b>352</b>
<b>Current assets</b>			
Assets held for sale		-	12
Tax refund	5	119	119
Trade receivables and other current assets	8,12	2	3
Restricted cash	9,12	-	177
Bank deposits, cash and cash equivalents	9,12	2	100
<b>Total current assets</b>		<b>123</b>	<b>412</b>
<b>Total assets</b>		<b>496</b>	<b>764</b>
<b>Equity</b>			
Share capital	13	1 234	1 234
Other equity		(1 248)	(1 234)
<b>Total equity</b>		<b>(13)</b>	<b>0</b>
<b>Non-current liabilities</b>			
Asset retirement obligations	13	0	0
Bond loan	10,12	383	367
<b>Total non-current liabilities</b>		<b>383</b>	<b>367</b>
<b>Current liabilities</b>			
Liabilities held for sale		-	107
Bond loan	10,12	9	160
Other interest bearing debt	10,12	113	110
Trade payables and other current liabilities	11,12	5	19
<b>Total current liabilities</b>		<b>127</b>	<b>397</b>
<b>Total liabilities</b>		<b>509</b>	<b>763</b>
<b>Total equity and liabilities</b>		<b>496</b>	<b>764</b>

## STATEMENT OF CHANGES IN EQUITY

NOK million	Share capital	Other equity	Total
<b>2015</b>			
Equity on 01.01.2015	1 131	(1 006)	125
Net result for the period		4	4
<b>Total comprehensive income for the period (net of tax)</b>		<b>4</b>	<b>4</b>
<b>Transactions with owners</b>			
Proceeds from share issued	103		
Share-based incentive program		4	
<b>Total transactions with owners for the period</b>	<b>103</b>	<b>4</b>	<b>107</b>
<b>Equity on 30.09.2015</b>	<b>1 234</b>	<b>(998)</b>	<b>236</b>
<b>2016</b>			
Equity on 01.01.2016	1 234	(1 234)	-
Net result for the period		(13)	(13)
<b>Total comprehensive income for the period (net of tax)</b>		<b>(13)</b>	<b>(13)</b>
<b>Total transactions with owners for the period</b>		<b>-</b>	<b>-</b>
<b>Equity on 30.09.2016</b>	<b>1 234</b>	<b>(1 248)</b>	<b>(13)</b>

## STATEMENT OF CASH FLOWS

NOK million	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
Net result for the period	(33)	9	(13)	4
Income tax benefit	(17)	(47)	(20)	28
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>				
Expensed exploration expenditures previously capitalised	-	53	11	81
Share-based payments expenses	-	2		4
Change in fair value of bond	31	(50)	24	67
Gain on extinguishment of debt	-	-	-	(278)
Paid/received interests and borrowing cost - net	-	-	-	13
Effect of changes in exchange rates	1	(1)	1	(2)
Accretion expense related to asset retirement obligations	-	2	-	5
<i>Changes in working capital</i>				
Changes in trade receivable	3	14	1	10
Changes in trade payables	(19)	(4)	(14)	0
Changes in other balance sheet items	(17)	(14)	142	87
<b>Net cash flow from operations</b>	<b>(50)</b>	<b>(36)</b>	<b>132</b>	<b>(6)</b>
<b>Cash flows from investing activities</b>				
Purchase/sale of intangible assets	-	(54)	-	(77)
Net cash flow from divestment of assets	-	-	(44)	-
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>(54)</b>	<b>(44)</b>	<b>(77)</b>
<b>Cash flows from financing activities</b>				
Issue of share capital	-	-	-	73
Proceeds from utilisation of exploration facility	-	68	-	68
PIK interest	16	-	16	-
Repayment of bonds	(18)	-	(176)	-
Repayment of exploration facility	-	-	(3)	(2)
Interest paid	-	-	(22)	(13)
<b>Net cash flow from (used) in financing activities</b>	<b>(2)</b>	<b>68</b>	<b>(185)</b>	<b>125</b>
<b>Net change in cash and cash equivalents</b>	<b>(52)</b>	<b>(21)</b>	<b>(98)</b>	<b>42</b>
Cash and cash equivalents at the beginning of the period	54	80	100	17
<b>Cash and cash equivalents at end of the quarter</b>	<b>2</b>	<b>60</b>	<b>2</b>	<b>59</b>

# NOTES

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## 1 Accounting principles

Noreco Norway AS is a public limited company registered in Norway, with headquarters in Nedre Vollgate 1, 0158 Oslo. Following the restructuring in March 2015, the company's objective has been changed into monetizing the company's assets with the aim to repay outstanding debt. Any surplus cash will be paid out to shareholders or invested in relevant activities. The company is a 100% ultimately owned subsidiary of Norwegian Energy Company ASA.

The interim financial statements for the third quarter of 2016 were authorised for issue by the board of directors on 23 November 2016.

### **Basis for preparation**

The interim condensed financial statements (the interim financial statements) for the third quarter 2016 comprise Noreco Norway AS (Noreco). These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial statements do not include all of the information and disclosures required to represent a complete set of financial statements, and these interim financial statements should be read in conjunction with the annual financial statements. The interim financial statements are unaudited.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding. The statement of comprehensive income has been re-presented for discontinued operations.

### **Going concern**

The board of directors confirms that the interim financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these interim financial statements. The intentions for the company is to claim exit refund during 2017. The financial solidity and the company's cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

### **Reference to summary of significant accounting policies**

These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2015. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2015.

### **Borrowings**

Borrowings are initially recognised at fair value. The subsequent measurement depends on which category they have been classified into. The categories applicable for Noreco are either financial liabilities through profit or loss or financial liabilities measured at amortised cost using the effective interest method. The first category applies to Noreco's bond loan as of 30 September 2016.

### **Discontinued operation**

A discontinued operation is a component of the company's business, the operation and cash flows of which can be clearly distinguished from the rest of the entity and which:

- Represents a major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic are of operations

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. Comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Since the new strategy for Noreco has been implemented by Noreco effectively ceasing to be an E&P company, by selling, relinquishing, termination or forfeiture all its E&P activities, including its E&P staff, the E&P operation is classified as a discontinued operation.

### **New standards interpretations and amendments adopted by Noreco on 1 January 2016**

There have been no changes to significant accounting policies in the third quarter of 2016 compared to the annual financial statements for 2015.



## 2 Discontinued operations

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. Noreco initiated during the winter a financial restructuring process and a restructuring proposal was presented in February 2015. The restructuring proposal entailed that Noreco would be converting NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortizations except final maturity in three years, but with "cash sweep" if cash should become available. According to the plan Noreco Norway should take over the NOR06 bond loan at a principal of NOK 618 million. The restructuring proposal was approved in March 2015, and Noreco has since focused on implementing a new strategy as a consequence.

The new strategy is to repay the bonds within three years, with part payment whenever the cash flow allows it, and secure a return of investment to the shareholders. During 2015 the company implemented the plan by ceasing to be an E&P company, specifically by selling its share in the oil producing licenses Oselvar and Enoch to CapeOmega (The Oselvar sale was completed in Q4 2015; the Enoch sale was completed in Q1 2016) and the entire E&P operation in Norway (license shares, operatorships, staff contracts and other contracts related to the operation) to Det norske oljeselskap ASA (Detnor). The latter agreement was announced on the 2nd of March and was entered into by Noreco's fully owned subsidiary Noreco Norway AS. The deal included a sale of its remaining exploration licences, employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction is 1 January 2016. The transaction constitutes a ceasing of all of Noreco Norway's petroleum activities, and Noreco will claim "Exit-refund" in 2017. The transaction entered into with Detnor received the necessary approvals from the Ministry of Petroleum and Energy and the Ministry of Finance at the end of second quarter, and the deal was consequently completed at the end of second quarter 2016.

(NOK million)	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
<b>Revenue</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>49</b>
Production expenses	-	(5)	-	1
Exploration and evaluation expenses <sup>(1)</sup>	0	(58)	(17)	(116)
Payroll expenses	-	(12)	(17)	(30)
Other operating expenses	(3)	(8)	(10)	(23)
Other (losses) / gains <sup>(2)</sup>	(0)	-	64	-
<b>Total operating expenses</b>	<b>(3)</b>	<b>(82)</b>	<b>20</b>	<b>(167)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	<b>(3)</b>	<b>(74)</b>	<b>20</b>	<b>(119)</b>
Depreciation	-	-	-	-
Write-downs and reversals of write-downs	-	-	-	-
<b>Net operating result (EBIT)</b>	<b>(3)</b>	<b>(74)</b>	<b>20</b>	<b>(119)</b>
Financial income	-	1	-	4
Financial expenses	(1)	(8)	(5)	(36)
<b>Net financial items</b>	<b>(1)</b>	<b>(7)</b>	<b>(5)</b>	<b>(32)</b>
<b>Result before tax (EBT)</b>	<b>(4)</b>	<b>(81)</b>	<b>15</b>	<b>(149)</b>
Income tax benefit / (expense)	1	58	7	21
<b>Net result for the period</b>	<b>(3)</b>	<b>(23)</b>	<b>23</b>	<b>(128)</b>
Average number of employees, discontinued operations	-	30	21	32

1) The Detnor deal has the consequence that Noreco Norway no longer has any exploration assets.

### 3 Other operating expenses

(NOK million)	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
Consultant fees	(1)	0	(4)	0
<b>Total other operating expenses continued operation</b>	<b>(1)</b>	<b>0</b>	<b>(4)</b>	<b>0</b>
<b>Total other operating expenses discontinued operation</b>	<b>(3)</b>	<b>(8)</b>	<b>(10)</b>	<b>(23)</b>
<b>Total other operating expenses</b>	<b>(4)</b>	<b>(8)</b>	<b>(14)</b>	<b>(23)</b>

### 4 Financial income and expenses

Financial income				
(NOK million)	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
Interest income	-	1	0	3
Interest income from other group companies	-	-	0	1
Change in fair value of bond debt	-	50	0	327
Other financial income	1	2	1	2
<b>Total financial income continued operation</b>	<b>1</b>	<b>53</b>	<b>1</b>	<b>332</b>
<b>Total financial income discontinued operation</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>4</b>
<b>Total financial income</b>	<b>1</b>	<b>55</b>	<b>1</b>	<b>336</b>

Financial expenses				
(NOK million)	Q3 2016	Q3 2015	YTD Q3 2016	YTD Q3 2015
Interest expense from bond loans	(8)	(10)	(26)	(23)
Interest expense to other group companies	-	-	-	(12)
Change in fair value of bond debt	(31)	-	(19)	-
Other financial expenses	-	-	-	(118)
<b>Total financial expenses continued operation</b>	<b>(40)</b>	<b>(10)</b>	<b>(45)</b>	<b>(151)</b>
<b>Total financial expenses discontinued operation</b>	<b>(1)</b>	<b>(8)</b>	<b>(5)</b>	<b>(36)</b>
<b>Total financial expenses</b>	<b>(41)</b>	<b>(18)</b>	<b>(51)</b>	<b>(186)</b>
<b>Net financial items continued operation</b>	<b>(39)</b>	<b>43</b>	<b>(44)</b>	<b>180</b>
<b>Net financial items discontinued operation</b>	<b>(1)</b>	<b>(7)</b>	<b>(5)</b>	<b>(32)</b>
<b>Net financial items</b>	<b>(40)</b>	<b>36</b>	<b>(49)</b>	<b>149</b>

## 5 Tax

### Income tax

(NOK million)	Q3 2016	Q3 2015
Income (loss) before tax	(43)	(38)
Income tax benefit (expense)	11	47
Equivalent to a tax rate of	25.1 %	124.1 %

The tax rate for the third quarter of 2016 was impacted by changes in value on bond debt, measured at market price.

Noreco Norway has a marginal tax rate of 78 percent, of which 25 percent relates the ordinary tax rate in Norway and 53 percent relates to the special tax rate related to exploration and production activities in Norway. The deferred tax asset in the balance sheet is calculated using the enacted tax rates for 2016 (25%/53%) adjusted for the deferred tax.

Tax loss carry forward 30.09.16 (NOK million)	Offshore		Onshore	
	Recognised	Un-recognised	Recognised	Un-recognised
Noreco Norway AS	502	-	508	10
<b>Total tax loss carry forward</b>	<b>502</b>	<b>-</b>	<b>508</b>	<b>10</b>

The onshore tax loss carry forwards in Noreco Norway AS is subject to the Norwegian Petroleum Taxation Act §3c. The deferred tax in the balance sheet is calculated using the enacted tax rates for 2016 (25 per cent/ 53 per cent) and adjusting for deferred tax.

Deferred tax assets amount to a net amount of approximately NOK 370 million, which consist of an Exit refund of approximately NOK 383 million, NOK 10 million in other refunds and a deferred tax liability of approximately NOK 23 million related to the fair value measurement of the NOR06 bond. The refunds to be repaid to Noreco Norway in 2017 totals approximately NOK 393 million, of which the NOR06 bondholders will receive approximately NOK 383 million in Exit refund.

### Tax refund

(NOK million)	30.09.16	31.12.15
Tax refund related to Norwegian exploration activity in 2016	-	-
Tax refund related to Norwegian exploration activity in 2015	119	119
<b>Total tax refund</b>	<b>119</b>	<b>119</b>

All figures reported in the income statement and the balance sheet are based on Noreco's tax calculations, and should be considered estimates until the final tax return is settled for each specific year.

## 6 Intangible non-current assets

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.16	-
Additions	5
Expensed exploration expenditures previously capitalised	(5)
<b>Acquisition costs 30.09.16</b>	<b>0</b>
<b>Accumulated depreciation and write-downs</b>	
Accumulated depreciation and write-downs 01.01.16	-
<b>Accumulated depreciation and write-downs 30.09.16</b>	<b>-</b>
<b>Book value 30.09.16</b>	<b>-</b>

### Result from impairment test of Licence and capitalised exploration expenditures on 30 September 2016

The Detnor deal has the consequence that Noreco Norway AS no longer has any exploration licenses. The book value of the licenses was impaired fully in Q4 2015 due to the Djerv deal and presented in the comprehensive income as an exploration expense in discontinued operations in Q4 2015.

## 7 Property, plant and equipment

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.16	77	1	78
Additions	-	-	-
Revaluation abandonment assets	-	-	-
Disposals	(126)	-	(126)
Reclassified to assets held for sale	78	1	79
<b>Acquisition costs 30.09.16</b>	<b>30</b>	<b>2</b>	<b>32</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.16	(77)	(1)	(77)
Depreciation	-	-	-
Disposals	126	-	126
Write-downs	-	-	-
Reclassified to assets held for sale	(78)	(1)	(79)
<b>Accumulated depreciation and write-downs 30.09.16</b>	<b>(30)</b>	<b>(2)</b>	<b>(31)</b>
<b>Book value 30.09.16</b>	<b>-</b>	<b>0</b>	<b>0</b>

### Impairment test Q3 2016

No impairment test was performed in Q3 2016 due to all PP&E being impaired in full during 2015, and no reversal triggers being present in Q3 2016.

## 8 Trade receivables and other current assets

### Trade receivables and other current assets

(NOK million)	30.09.2016	31.12.2015
Trade receivables	0	2
Receivables from operators relating to joint venture licences	0	1
Underlift of oil/NGL	-	0
Prepayments	0	(0)
Other receivables	2	-
<b>Total trade receivables and other current receivables</b>	<b>2</b>	<b>3</b>

## 9 Restricted cash, bank deposits, cash and cash equivalents

### Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	30.09.2016	31.12.2015
<b>Non-current assets</b>		
Other restricted cash and bank deposits	2	2
<b>Current assets</b>		
Other restricted cash and bank deposits (Pledged account for bondholders, withholding tax etc.)	-	177
<b>Total restricted cash</b>	<b>2</b>	<b>180</b>
Unrestricted cash, bank deposits and cash equivalents	2	100
<b>Total bank deposits</b>	<b>4</b>	<b>280</b>

### Overdraft facilities

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Exploration loan facility <sup>(1)</sup>	107	107	107	-	-
<b>Total</b>		<b>107</b>	<b>107</b>	-	-
Unrestricted cash and cash equivalents					2
<b>Accessible liquidity at 30.09.16</b>					<b>2</b>

1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities.

During 2015 and 2016 certain amendments to the exploration loan agreement was agreed and executed. The amendments initially included a reduction in the borrowing limit from NOK 850 million to NOK 500 million. In addition, the cross default clause was limited to borrowings within Noreco Norway, and the previously issued parent company guarantee issued by Norwegian Energy Company ASA was cancelled. By initiative of the company the facility was further reduced to NOK 400 million in Q3 2015 due to reduced expected exploration spend. In Q1 2016 the exploration loan facility amount was reduced to the actual drawn amount. The exploration loan will be repaid during Q4 2016.

# 10 Borrowings

## 10.1 Principal amounts and book values

Non-current debt (NOK million)	30.09.2016		31.12.2015	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	473	383	477	367
<b>Total non-current bonds</b>	<b>473</b>	<b>383</b>	<b>477</b>	<b>367</b>
Exploration loan	-	-	-	-
<b>Total non-current other interest bearing debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current debt</b>				
(NOK million)	Principal amount		Book value	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	9	9	160	160
<b>Total current bonds</b>	<b>9</b>	<b>9</b>	<b>160</b>	<b>160</b>
Exploration loan	107	107	110	110
Debt to group companies	6	6	-	-
<b>Total current other interest bearing debt</b>	<b>113</b>	<b>113</b>	<b>110</b>	<b>110</b>
<b>Total borrowings</b>	<b>595</b>	<b>504</b>	<b>748</b>	<b>637</b>

Borrowings are recognised initially at fair value. As of the end of Q3 2016 a fair value of 81% has been applied for the amended and restated bond loan.

## 10.2 Financial restructuring

A financial restructuring of the Noreco group was completed in the first quarter 2015. For more information see Quarterly report for first quarter 2015 for Noreco Group. For Noreco Norway, the restructuring had the following implications:

- Bond loan NOR06 changed borrower from Norwegian Energy Company ASA to Noreco Norway AS without any recourse to the parent company or other parts of the group. Noreco opted to measure the bond subsequently using the fair value option.
- Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.
- Nordic Trustee, on behalf of the bondholders of NOR06, was given an option to purchase all outstanding shares of and any intercompany claims on Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.

## 10.3 Subsequent measurement and events in third quarter

Due to the Oselvar deal which was announced in Q2 2015 and completed in late Q4 2015, Noreco Norway was obliged to make down-payment on the NOR06 bond. The down payment took place on 6 March 2016. A total of approximately NOK 153 million of principal amount was re-paid. In third quarter of 2016 Noreco PIK'ed interest payments of approximately NOK 15,7 million and made a payment of approximately NOK 18 million, which results in the principal amount of the NOR06 bond decreasing to approximately NOK 482,4 million.

The subsequent measurement depends on which category the borrowings have been classified into. The categories applicable for Noreco are either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. Noreco has designated the amended and restated bond loans at fair value through profit or loss. Due to low volumes being traded, Noreco has used valuation techniques in order to estimate the fair value on the NOR06 bond loan. The valuation technique maximizes the use of observable data, and is based on estimated repayment when receiving the tax refund (of which approximately NOK 8 million will be used to repay the bond holders) and "EXIT refund" from the Norwegian tax authorities as described in note 5. The following fair values were applied for the amended and restated bond loan at the end of third quarter 2016.

Amended and restated NOR06 81 %

## 11 Trade payables and other current liabilities

(NOK million)	30.09.16	31.12.15
Trade payable	0	0
Liabilities to operators relating to joint venture licences	0	2
Accrued interest	3	13
Public duties payable	0	0
Other current liabilities	1	3
<b>Total other current liabilities</b>	<b>5</b>	<b>19</b>

## 12 Financial instruments

### 12.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

On 30.09.2016

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans	-	-	393	393
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>393</b>	<b>393</b>

On 31.12.2015

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans	-	-	527	527
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>527</b>	<b>527</b>

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value for a financial instrument are observable, the instrument is included in level 2.

## 12.2 Financial instruments by category

On 30.09.2016

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	2	-	2
Restricted cash	2	-	2
Bank deposits, cash and cash equivalents	2	-	2
<b>Total</b>	<b>6</b>	<b>-</b>	<b>6</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bond loans	-	393	393
Other interest bearing debt	113	-	113
Trade payables and other current liabilities	5	-	5
<b>Total</b>	<b>118</b>	<b>393</b>	<b>511</b>

On 31.12.2015

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	3	0	3
Restricted cash	180	-	180
Bank deposits, cash and cash equivalents	100	-	100
<b>Total</b>	<b>283</b>	<b>0</b>	<b>283</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds	-	527	527
Other interest bearing debt	110	-	110
Trade payables and other current liabilities	19	-	19
<b>Total</b>	<b>129</b>	<b>527</b>	<b>656</b>



## 12.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 30 September 2016:

(NOK million)	Carrying amount	Fair value
<b>Financial assets:</b>		
Trade receivables and other current assets	2	2
Restricted cash	2	2
Bank deposits, cash and cash equivalents	2	2
<b>Total</b>	<b>6</b>	<b>6</b>
<b>Financial liabilities:</b>		
Bonds	393	393
Other interest bearing debt	113	113
Trade payables and other current liabilities	5	5
<b>Total</b>	<b>511</b>	<b>511</b>

## 13 Asset retirement obligations

(NOK million)	30.09.16	31.12.15
Balance on 1.1.	-	73
Provisions and change of estimates made during the year	-	(125)
Accretion expense	-	(5)
Reclassified to liabilities held for sale in Q1 2016	12	(12)
Reversed provision from disposal of assets Q1 2016	(12)	(69)
<b>Total provision made for asset retirement obligations</b>	<b>(0)</b>	<b>0</b>

Provisions made for asset retirement obligations include the future expected costs (estimated based on current day costs inflated) for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a risk-free rate adjusted for credit risk of 9 percent. Inflation is assumed to be 2 percent.

## 14 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2015	141 001	1 234
<i>Change in share capital in 2016</i>		
30 September 2016	141 001	1 234

## IIINFORMATION ABOUT NORECO NORWAY AS

### Head office Noreco

Mailing address P.O. Box 393 Sentrum, 0103 Oslo,  
Norway  
Visiting address Nedre Vollgate 1, 0158 Oslo, Norway  
Telephone +47 215 15 707  
Internet [www.noreco.com](http://www.noreco.com)  
Organisation number NO 987 008 644 mva

### Board of Directors Noreco Norway AS

Silje Augustson Chair  
Roar Flom  
Riulf Frederik Rustad

### Noreco Norway AS management

Riulf Frederik Rustad Managing Director

### Investor Relations

Silje Augustson, CEO  
tel. +47 215 15 707  
[investorrelations@noreco.com](mailto:investorrelations@noreco.com)

### Financial calendar 2016

26 February	Q4 2016 Report
26 May	Q1 2016 Report
31 August	Q2 2016 Report
23 November	Q3 2016 Report

### Annual reports

Annual reports for Noreco Norway are available on [www.noreco.com](http://www.noreco.com)

### Quarterly publications

Quarterly reports are available on [www.noreco.com](http://www.noreco.com).  
The publications can be ordered by sending an e-mail to [investorrelations@noreco.com](mailto:investorrelations@noreco.com).

### News releases

In order to receive news releases from Noreco, please register on [www.noreco.com](http://www.noreco.com) or send an e-mail to [investorrelations@noreco.com](mailto:investorrelations@noreco.com).



**Noreco Norway AS**  
Nedre Vollgate 1  
P.O. Box 393 Sentrum  
0158 Oslo  
Norway

[www.noreco.com](http://www.noreco.com)