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NORECO NORWAY AS
THIRD QUARTER
2017

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REPORT FOR THE THIRD QUARTER 2017

NORECO NORWAY AS

SUMMARY

- Following the transaction with Det Norske Oljeselskap ASA (Detnor) all hydrocarbon activities in Noreco Norway has ceased and the company has in January 2017 received approval from the bondholders to seek early tax assessment and the subsequent dissolution of the company.
- Tax refund totals approximately NOK 401 million, which includes an Exit refund of approximately NOK 393 million. The company expects to settle the outstanding NOR06 bond in Q4 2017 in accordance with the approved bondholder proposal as of 16 March 2016.

BUSINESS DEVELOPMENT AND OUTLOOK

Noreco Norway has following the transaction with Detnor ceased all hydrocarbon activity and management has focused on monetising the tax loss and other remaining assets. The company is in the process of seeking early tax assessment, and will subsequently dissolve of the company. This is expected to be finalized during the early part of 2018.

The company expects to settle NOR06 in accordance with the approved bondholder proposal of 16 March 2016 during fourth quarter 2017.

Based on the above the accounts have not been prepared on a going concern basis.

FINANCIALS

Other operating expenses from continued operations consist of consultancy fees.

Net financial items from continued operations amounted to a negative amount of NOK 9 million for the third quarter 2017 and relate to change in fair value and interest on bond loan. In the same period last year net financial items amounted to a negative amount of NOK 39 million mainly due to change in fair value on bond loan and interest on the bond loan.

Taxes from continued operations amounted to an income of NOK 2 million for the third quarter 2017, compared to NOK 10 million in the same period last year. The deferred tax asset in 2017 is computed using the enacted tax rates for 2017 (24 per cent/54 per cent).

Income from discontinued operation in third quarter amounted to NOK 0 million compared to a loss of NOK 3 million for the same period in 2016.

Net result for the third quarter of 2017 was negative NOK 6 million, compared to a loss of NOK 33 million for the third quarter 2016.

At the end of the third quarter 2017 Noreco Norway had a total of **cash and cash equivalents** of NOK 77 million.

Equity amounted to NOK 62 million at the end of the third quarter. The equity was at year end 2016 negative by NOK 16 million.

The **bond loan's** book value was NOK 393 million (principal amount NOK 471 million) at the end of the quarter compared to book value of NOK 377 million (principal amount of NOK 474 million) at the end of 2016. The book value of the bond loan is, as of the end of third quarter, based on the expected repayment from exit refund.

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 2016 of Norwegian Energy Company ASA. The most significant risk Noreco Norway is facing for the next twelve months is related to tax.

GOVERNANCE AND ORGANISATION

The company is in liquidation and no longer has any employees.

STATEMENT OF COMPREHENSIVE INCOME

NOK million	Note	Q3 2017	Q3 2016	YTD Q3 2017	YTD Q3 2016	2016
Continued operations						
Revenue		-	-	-	-	-
Other operating expenses	3	0	(1)	(1)	(4)	(4)
Total operating expenses		0	(1)	(1)	(4)	(4)
Operating result before depreciation and write-downs (EBITDA)		0	(1)	(1)	(4)	(4)
Net operating result (EBIT)		0	(1)	(1)	(4)	(4)
Financial income	4	-	1	0	1	2
Financial expenses	4	(9)	(40)	(42)	(45)	(48)
Net financial items		(9)	(39)	(42)	(44)	(46)
Result before tax (EBT)		(9)	(40)	(43)	(48)	(49)
Income tax benefit / (expense)	5	2	10	10	12	12
Net result for the period continued operation		(6)	(30)	(33)	(36)	(37)
Discontinued operation						
Profit (loss) from discontinued operation (net of income tax)	2	(0)	(3)	110	23	21
Net result for the period		(6)	(33)	77	(13)	(16)
Total comprehensive income for the period (net of tax)		(6)	(33)	77	(13)	(16)

STATEMENT OF FINANCIAL POSITION

NOK million	Note	30.09.17	31.12.16
Non-current assets			
Restricted cash	9,12	-	2
Total non-current assets		-	2
Current assets			
Tax refund	5	401	397
Trade receivables and other current assets	6,10	0	1
Bank deposits, cash and cash equivalents	7,10	77	6
Total current assets		478	404
Total assets		478	406
Equity			
Share capital	13	1 234	1 234
Other equity		(1 172)	(1 249)
Total equity		62	(16)
Non-current liabilities			
Deferred tax	5	15	23
Asset retirement obligations	13	(0)	0
Total non-current liabilities		14	23
Current liabilities			
Bond loan	8,10	393	377
Other interest bearing debt	8,10	0	11
Debt to group companies	8,10	5	-
Trade payables and other current liabilities	9,10	3	10
Total current liabilities		401	399
Total liabilities		415	422
Total equity and liabilities		478	406

STATEMENT OF CHANGES IN EQUITY

NOK million	Share capital	Other equity	Total
2016			
Equity on 01.01.2016	1 234	(1 234)	-
Net result for the period		(13)	(13)
Total comprehensive income for the period (net of tax)		(13)	(13)
Transactions with owners			
Proceeds from share issued			-
Share-based incentive program			-
Total transactions with owners for the period	-	-	-
Equity on 30.09.2016	1 234	(1 249)	(16)
2017			
Equity on 01.01.2017	1 234	(1 249)	(16)
Net result for the period		77	77
Total comprehensive income for the period (net of tax)		77	77
Total transactions with owners for the period		-	-
Equity on 30.09.2017	1 234	(1 172)	62

STATEMENT OF CASH FLOWS

NOK million	Q3 2017	Q3 2016
Net result for the period	77	(13)
Income tax benefit	(10)	(20)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>		
Expensed exploration expenditures previously capitalised	-	11
Change in fair value of bond	19	24
Effect of changes in exchange rates	-	1
<i>Changes in working capital</i>		
Changes in trade receivable	1	1
Changes in trade payables	(7)	(14)
Changes in other current balance sheet items	(4)	142
Net cash flow from operations	75	132
Cash flows from investing activities		
Purchase/sale of intangible assets	-	0
Net cash flow from divestment of assets	-	(44)
Net cash flow used in investing activities	-	(44)
Cash flows from financing activities		
Proceeds from utilisation of exploration facility	-	-
Repayment of bonds	(34)	(176)
Repayment of exploration facility	-	(3)
PIK interest	30	16
Interest paid	-	(22)
Net cash flow from (used) in financing activities	(3)	(185)
Net change in cash and cash equivalents	71	(97)
Cash and cash equivalents at the beginning of the period	6	100
Cash and cash equivalents at end of the quarter	77	2

NOTES

1 Accounting principles

Noreco Norway AS is a private 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 2017 were authorised for issue by the board of directors on 15 November 2017.

Basis for preparation

The interim condensed financial statements (the interim financial statements) for the third quarter 2017 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 statement has not been prepared under the presumption of going concern, and that this is the basis for the preparation of this interim financial statement. The Company is claiming Exit refund in 2017 and has consequently started the process of closing down the entity. The financial solidity and the company's cash position are considered satisfactory in regards of the planned activity until the entity is closed down during early part of 2018. The repayment of Exit refund is expected during fourth quarter 2017.

Reference to summary of significant accounting policies

These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2016. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2016.

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 2017.

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 area 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 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 2017

There have been no changes to significant accounting policies in the third quarter of 2017 compared to the annual financial statements for 2016.

2 Discontinued operations

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. 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.

On 2 March 2016 it was announced that the entire remaining E&P operation in Norway was sold to Det norske oljeselskap ASA (Detnor). The deal included a sale of the remaining exploration licences, all employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction was 1 January 2016, and the deal received the necessary approvals from the Ministry of Petroleum and Energy and the Ministry of Finance at the end of second quarter 2016, and the deal was consequently completed at the end of second quarter 2016. The Detnor deal resulted in Q1 2016 in a provision for the expected payment of consideration. Due to the lengthy process the expected payment of consideration was updated and resulted in a reversal of parts of the provision. The DetNor transaction constituted a ceasing of all of Noreco Norway's petroleum activities, and Noreco has started the process of claiming "Exit-refund". The Exit-refund is expected to be repaid during Q4 2017.

(NOK million)	Q3 2017	Q3 2016	YTD Q3 2017	YTD Q3 2016
Revenue	-	-	-	-
Production expenses	-	-	-	-
Exploration and evaluation expenses ⁽¹⁾	(0)	-	(1)	(17)
Payroll expenses	(0)	-	(0)	(17)
Other operating expenses	(0)	(3)	(1)	(10)
Other (losses) / gains ⁽²⁾	(0)	-	112	64
Total operating expenses	(0)	(3)	110	20
Operating result before depreciation and write-downs (EBITDA)	(0)	(3)	110	20
Depreciation	-	-	-	-
Write-downs and reversals of write-downs	-	-	-	-
Net operating result (EBIT)	(0)	(3)	110	20
Financial income	(0)	-	-	-
Financial expenses	(0)	(1)	(0)	(5)
Net financial items	(0)	(1)	(0)	(5)
Result before tax (EBT)	(0)	(4)	110	15
Income tax benefit / (expense)	-	1	-	7
Net result for the period	(0)	(3)	110	23
Average number of employees, discontinued operations	-	-	-	-

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

2) Success payment related to the authorities approval of the Dvalin PDO (Zidane-payment).

3 Other operating expenses

(NOK million)	Q3 2017	Q3 2016	YTD Q3 2017	YTD Q3 2016
Consultant fees	0	(1)	(1)	(4)
Total other operating expenses continued operation	0	(1)	(1)	(4)
Total other operating expenses discontinued operation	0	(3)	(1)	(10)
Total other operating expenses	0	(4)	(2)	(14)

4 Financial income and expenses

Financial income

(NOK million)	Q3 2017	Q3 2016	YTD Q3 2017	YTD Q3 2016
Interest income	-	-	0	-
Change in fair value of bond debt	-	-	0	-
Other financial income	0	1	0	1
Total financial income continued operation	0	-	0	-
Total financial income discontinued operation	(0)	-	-	-
Total financial income	(0)	-	0	-

Financial expenses

(NOK million)	Q3 2017	Q3 2016	YTD Q3 2017	YTD Q3 2016
Interest expense from bond loans	(8)	(8)	(23)	(26)
Change in fair value of bond debt	(1)	(31)	(19)	(19)
Other financial expenses	0	0	(0)	-
Total financial expenses continued operation	(9)	(40)	(42)	(45)
Total financial expenses discontinued operation	(0)	(1)	(0)	(5)
Total financial expenses	(9)	(41)	(42)	(50)
Net financial items continued operation	(9)	(39)	(42)	(44)
Net financial items discontinued operation	(0)	(1)	(0)	(5)
Net financial items	(9)	(40)	(42)	(49)

5 Tax

The deferred tax asset in the balance sheet is calculated using the enacted tax rates for 2017 (24%/54%) adjusted for the deferred tax.

Tax loss carry forward 30.09.17 (NOK million)	Offshore		Onshore	
	Recognised	Un-recognised	Recognised	Un-recognised
Noreco Norway AS	507	-	529	26
Total tax loss carry forward	507	-	529	26

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 2017 (24 per cent/ 54 per cent) and adjusting for deferred tax.

Tax refund totals approximately NOK 401 million, which includes an Exit refund of approximately NOK 393 million and NOK 8 million in other refunds. In addition a deferred tax liability of approximately NOK 15 million related to the fair value measurement of the NOR06 bond is recognised. Of the refunds to be repaid to Noreco Norway, the NOR06 bondholders will receive approximately NOK 393 million in Exit refund.

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 Trade receivables and other current assets

Trade receivables and other current assets

(NOK million)	30.09.2017	31.12.2016
Trade receivables due to Zidane/Dvalin contingent payment	0	-
Receivables from operators relating to joint venture licences	0	-
Underlift of oil/NGL	0	-
Prepayments	0	-
Other receivables	0	1
Total trade receivables and other current receivables	0	1

7 Restricted cash, bank deposits, cash and cash equivalents

Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	30.09.2017	31.12.2016
Non-current assets		
Other restricted cash and bank deposits	-	2
Current assets		
Other restricted cash and bank deposits (Pledged account for bondholders, withholding tax etc.)	-	-
Total restricted cash	-	2
Unrestricted cash, bank deposits and cash equivalents	77	6
Total bank deposits	77	8
Accessible liquidity at period end	77	6

8 Borrowings

8.1 Principal amounts and book values

Non-current debt (NOK million)	30.09.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated			474	377
Total non-current bonds	-	-	474	377
Exploration loan	-	-	-	-
Total non-current other interest bearing debt	-	-	-	-
Current debt				
(NOK million)	30.09.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	471	393	-	-
Total current bonds	471	393	-	-
Exploration loan	-	-	(0)	(0)
Debt to group companies	5	5	11	11
Total current other interest bearing debt	5	5	11	11
Total borrowings	476	398	485	388

Borrowings are recognised initially at fair value. As of the end of Q3 2017 the bond loan is valued according to the expected amount to be repaid to the bondholders.

8.2 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.

8.3 Subsequent measurement and events in the first quarter

During first and third quarter of 2017 Noreco Norway PIK'ed the interest payment on NOR06 in accordance with approved bondholder proposal of 16 March 2016, increasing the principal amount on NOR06. Aslo in accordance with the approved bondholder proposal, Noreco made in Q2 2017 a payment of approximately NOK 33 million due to the Dvalin (Zidane) success payment. The principal amount amounts to approximately NOK 471 million at the end of Q3 2017.

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 EXIT refund from the Norwegian tax authorities as described in note 5. This valuation corresponds to a fair at the end of third quarter 2017 of:

NOR06 bond loan 83 %

9 Trade payables and other current liabilities

(NOK million)	30.09.17	31.12.16
Trade payable	0	0
Accrued interest	3	10
Other current liabilities	0	0
Total other current liabilities	3	11

10 Financial instruments

10.1 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 30.09.2017

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

On 31.12.2016

(NOK million)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Total assets	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss				
- Bond loans			377	377
Total liabilities	-	-	377	377

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.

10.2 Financial instruments by category

On 30.09.2017

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	0	-	0
Restricted cash	-	-	-
Bank deposits, cash and cash equivalents	77	-	77
Total	77	-	77

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loans	-	-	-
Other interest bearing debt	-	-	-
Debt to group companies Ringfence 1	5	-	5
Trade payables and other current liabilities	3	-	3
Total	7	-	7

On 31.12.2016

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	1	-	1
Restricted cash	2	-	2
Bank deposits, cash and cash equivalents	6	-	6
Total	9	0	9

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bonds	-	377	377
Other interest bearing debt	11	-	11
Debt to group companies	-	6	6
Trade payables and other current liabilities	11	-	11
Total	22	383	405

10.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 30 september 2017:

(NOK million)	Carrying amount	Fair value
Financial assets:		
Trade receivables and other current assets	0	0
Restricted cash	-	-
Bank deposits, cash and cash equivalents	77	77
Total	77	77
Financial liabilities:		
Bonds	-	-
Debt to group companies	5	5
Trade payables and other current liabilities	3	3
Total	7	7

11 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2016	141 001	1 234
<i>Change in share capital in 2017</i>		
30 September 2017	141 001	1 234

12 Subsequent events

Early tax assessment has been approved for Noreco, and the company received the tax refund 6 November 2017. In accordance with the approved bondholders' proposal of 16 March 2016, started the final process of repaying the NOR06 bondholder Exit refund of approximately NOK 393 million.

INFORMATION ABOUT NORECO NORWAY AS

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Financial calendar 2017

15 February	Q4 2016 Report
24 May	Q1 2017 Report
23 August	Q2 2017 Report
16 November	Q3 2017 Report

Annual reports

Annual reports for Noreco Norway are available on
www.noreco.com

Quarterly publications

Quarterly reports are available on www.noreco.com.
The publications can be ordered by sending an e-mail to
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News releases

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