



**NORWEGIAN ENERGY COMPANY ASA**  
FOURTH QUARTER  
2017

# REPORT FOR THE FOURTH QUARTER 2017

NORWEGIAN ENERGY COMPANY ASA

## HIGHLIGHTS

- On 2 November 2017, Noreco Norway AS announced the finalization of early tax assessment for 2017. Final payment of approximately NOK 393 million to the NOR06 bondholders was carried out pro rata on 13 November 2017, and the remaining outstanding bonds were discharged.

## OUTLOOK

Noreco is continuously working to increase growth of the groups oil production within the two strategic areas of the UK and Danish sectors of the North Sea.

This has been challenging with the insurers' continued lack of responsible behaviour for their insurance obligations towards the Company (ref the Siri-insurance case).

However, despite this, the Company is now in a situation where the balance sheet is strong, and the access to capital for expansion is significant. Several commercial opportunities for expansion of the existing oil production have been identified. The progress on the opportunities are satisfactory.

## BALANCE SHEET AND EQUITY FOR NORWEGIAN ENERGY COMPANY ASA (NON IFRS-MEASURES)

### Non-IFRS Result for Norwegian Energy Company ASA 31.12.2017

NOK million

IFRS Result for the period after tax	98
Reversal of value adjustment of NOR 10	(3)
Value adjustment subsidiaries	13
<b>Non IFRS Result for the period</b>	<b>108</b>
Non IFRS Equity 01.01.2017	1 477
Non IFRS Result for the period	108
Other items	(28)
<b>Non IFRS Equity 31.12.2017</b>	<b>1 556</b>

### Non-IFRS Balance Sheet for Norwegian Energy Company ASA

NOK million

<b>Non-current assets</b>	
Restricted Cash	578
Value of subsidiaries	1 705
<b>Total non-current assets</b>	<b>2 283</b>
<b>Current assets</b>	
Restricted cash	2
Bank deposits, cash and cash equivalents	26
<b>Total current assets</b>	<b>28</b>
<b>Total assets</b>	<b>2 311</b>
<b>Equity</b>	
Share capital	72
Other equity	1 484
<b>Total equity</b>	<b>1 556</b>
<b>Non-current liabilities</b>	
Bond loan	161
Guarantee provision	578
<b>Total non-current liabilities</b>	<b>739</b>
<b>Current liabilities</b>	
Trade payables and other current liabilities	15
<b>Total current liabilities</b>	<b>15</b>
<b>Total liabilities</b>	<b>754</b>
<b>Total equity and liabilities</b>	<b>2 311</b>

Value of subsidiaries reflect the result of the Siri insurance case, where value has been accounted for at net value to Noreco excluding interest and tax.

## BUSINESS DEVELOPMENT

On 15 December 2016, the Maritime and Commercial High Court in Copenhagen announced their ruling on the Siri Insurance Claim. The total damages ruled in favor of the claimants (Noreco and its partners; Awilhelmsen Special Opportunities AS and QVT Financial LP) amounted to approximately USD 470 million, including interest. Of the total amount, Noreco is entitled to approximately USD 270 million.

In January 2017, it was announced that the Supreme Court in Copenhagen had received an appeal from the counterparties in relation to the Siri Insurance Claims ruling, the appeal was dismissed by the court on 17 February 2017. The Eastern High Court in Copenhagen received an appeal from the insurers late February and the court has agreed to handle the appeal. The court hearings will start on the 1 March 2018 with 13 days in court, the final day will be the 23 March 2018.

Noreco is confident in the case and its established strong merits from the court ruling. Noreco is no longer in a distressed situation and together with its strong partners, Awilhelmsen and QVT, Noreco is prepared to defend its position irrespective of how long it will take. A ruling is expected in the first half of 2018.

Based on the above it is the firm belief of the Board of Directors that the accounts should reflect this, however; due to IFRS regulations this is not possible.

On 10 August 2017, it was announced that Norwegian Energy Company ASA, Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S will take legal action for substantial monetary damages at the Court in Hillerød, Denmark, against the 20 insurance companies ("Insurers") who were ordered by the Danish Maritime and Commercial Court in December 2016 to pay a total insurance sum of USD 344 million plus legal interest of approximately USD 125 million as well as legal costs of DKK 18,6 million to Noreco.

Noreco's claim is that the Insurers must indemnify the losses suffered by Noreco in connection with the Insurers' unjustified rejection of insurance coverage of the Siri platform including Noreco's losses in connection with a costly refinancing of loans forced by the Insurers rejection, resulting in significantly increased interest expenses, the loss in connection with the sale of the Siri platform shares and Noreco's loss in connection with the agreement for essential third party litigation funding to pursue the claims for the damage relating to the Siri platform. Preliminary, Noreco does not calculate its loss in terms of value yet, as Noreco await the delivery of the judgment in the pending appeal of insurance case at the Danish Eastern High Court.

Due to the connection between the legal action for damages and the pending insurance court case at the Eastern High Court it has been requested that the legal action for damages is being suspended until ruling is made in the insurance court case.

On 2 November 2017, Noreco Norway AS announced the finalization of early tax assessment for 2016. Final payment to the NOR06 bondholders was carried out pro rata on 13 November 2017 with a final payment of approximately NOK 393 million, and the remaining outstanding bonds were discharged.

## GROUP FINANCIALS

The Noreco group had **revenues from continued operations** of NOK 4 million in the fourth quarter 2017 relating to revenue from Lulita compared to NOK 3 million in the fourth quarter 2016 and NOK 10 million for the year 2017 (NOK 11 million for 2016).

**Production expenses from continued operations** amounted to NOK 1 million in the fourth quarter of 2017 compared to NOK 2 million for the same quarter in 2016. The year 2017 ended with an income of NOK 2 million due to a settlement of NOK 5 million reversing previously accrued and expensed production costs. In 2016 the production expense was NOK 5 million.

**Personnel expenses** in fourth quarter was NOK 3 million which is the same level as fourth quarter in 2016. The yearly amount for 2017 is NOK 29 million due to increased number of employees in addition to social tax on beneficial amount from option program realized by former CEO. Personnel expenses for 2016 amounted to NOK 20 million for the year.

**Other operating expenses from continued operations** were a cost of NOK 11 million for the fourth quarter compared to an income of NOK 30 million for the same quarter in 2016. 2016 is reflecting that consultancy cost related to the SIRI claim was reversed in Q4 2016 as these costs were covered by the USD 15 million placed on escrow by our partner Awilhelmsen and QVT. The 2017 operating expenses are influenced by a large amount of consulting fees mainly in relation to new business opportunities.

**EBITDA from continued operations** (operating result before depreciation and write-downs) in the fourth quarter 2017 was a loss of NOK 12 million compared to a gain of NOK 28 million in the same quarter 2016. For the year 2017 Noreco EBITDA amounted to a loss of NOK 50 million mainly caused by higher consulting fees and personnel expenses.

**Net Financial items from continued operations** amounted to an income of NOK 3 million for the fourth quarter of 2017, compared to a cost of NOK 26 million in the same quarter of 2016. Full year 2017 ended with a cost of NOK 49 million compared to a cost of NOK 56 million in 2016. The effect in the fourth quarter of 2017 is mainly due to currency translation.

**Taxes from continued operations** amounted to an income of NOK 6 million for the fourth quarter and NOK 32 million for the year 2017. Taxable income is impacted by different tax regimes and tax rates. The tax rate represents the weighted average in relation to the results from the various subsidiaries. Reference is made to note 10 in the interim financial report for further details to the taxes this period.

**Profit from discontinued operation** amounted to NOK 0 million compared to a gain of NOK 320 million for the same period in 2016 caused by reversal of accrued cost in relation to Huntington. For the year 2017 profit from discontinued operation amounted to NOK 107 million due to the Zidane payment in Noreco Norway.

**Net result** for the fourth quarter of 2017 is a loss of NOK 3 million, compared to a gain of NOK 334 million for the same quarter in 2016 and a profit of NOK 39 million for the year of 2017.

**Non-current restricted cash** amounts to NOK 598 million mainly relating to the balance of an escrow account of originally DKK 445 million adjusted for interests set aside for future abandonment cost for Nini and Cecilie. After the settlement agreement with the partners Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount of originally DKK 445 million adjusted for interests on the escrow account. The liability corresponding to this escrow account is included in the asset retirement obligation.

**Non-current receivables** amount to NOK 484 million, related to the Siri-insurance claim. The court ruling was published in December 2016 with a very strong conclusion. At the end of the fourth quarter 2017, Noreco had a total of NOK 133 million in **bank deposits, cash and cash equivalents**.

**Equity** amounted to NOK 481 million at the end of the period, compared to NOK 437 million at the end of 2016.

**Asset retirement obligations** amounted to NOK 593 million at the end of the quarter compared to NOK 563 million at the end of 2016. The increase is due to exchange rate differences.

**Interest-bearing debt**, had a book value of NOK 155 million (principal amount NOK 161 million) at the end of fourth quarter 2017, compared to a book value of NOK 530 million (principal amount NOK 630 million) at the end of 2016. At the end of the quarter the NOR10 bond was valued at 96.1 % of principal amount. The remaining NOR06 bond loan was paid to the bondholders in fourth quarter with NOK 393 million after receiving the Exit refund in Noreco Norway.

## RISKS AND UNCERTAINTIES

Investment in Noreco involves risks and uncertainties as described in the board of director's report and note 3 to the annual report 2016. The most significant risks Noreco is facing for the next twelve months are related to court ruling and currency exchange rates.

## GOVERNANCE AND ORGANISATION

Cecilie O. Lindseth took on the position as Managing Director 1 October 2017.

The number of employees was 8 at the end of the quarter.

# STATEMENT OF COMPREHENSIVE INCOME

## CONSOLIDATED

All figures in NOK million	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Revenue	3	4	3	10	11
<b>Total revenues</b>		<b>4</b>	<b>3</b>	<b>10</b>	<b>11</b>
Production expenses	4	(1)	(2)	2	(5)
Exploration and evaluation expenses	5	0	0	1	(0)
Personnel expenses	6	(3)	(3)	(29)	(20)
Other operating expenses	7	(11)	30	(33)	(11)
Other (losses) / gains	8	-	-	-	1
<b>Total operating expenses</b>		<b>(16)</b>	<b>26</b>	<b>(59)</b>	<b>(34)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>		<b>(12)</b>	<b>28</b>	<b>(50)</b>	<b>(23)</b>
Depreciation	12	(1)	(0)	(1)	(1)
Write-downs and reversals of write-downs	11,12	-	(0)	0	(0)
<b>Net operating result (EBIT)</b>		<b>(12)</b>	<b>28</b>	<b>(51)</b>	<b>(24)</b>
Financial income	9	36	35	110	82
Financial expenses	9	(33)	(61)	(160)	(138)
<b>Net financial items</b>		<b>3</b>	<b>(26)</b>	<b>(49)</b>	<b>(56)</b>
<b>Result before tax (EBT)</b>		<b>(9)</b>	<b>2</b>	<b>(100)</b>	<b>(80)</b>
Income tax benefit / (expense)	10	6	12	32	65
<b>Net result for the period continued operation</b>		<b>(3)</b>	<b>13</b>	<b>(69)</b>	<b>(15)</b>
<b>Discontinued operation</b>					
Profit (loss) from discontinued operation (net of income tax)	2	-	320	107	304
<b>Net result for the period</b>		<b>(3)</b>	<b>334</b>	<b>39</b>	<b>290</b>
<b>Other comprehensive income (net of tax):</b>					
<i>Items to be reclassified to profit or loss in subsequent periods</i>					
Currency translation adjustment		30	40	(11)	(3)
<i>Total</i>		<i>30</i>	<i>40</i>	<i>(11)</i>	<i>(3)</i>
<b>Total other comprehensive income for the period (net of tax)</b>		<b>30</b>	<b>40</b>	<b>(11)</b>	<b>(3)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>27</b>	<b>373</b>	<b>28</b>	<b>287</b>
<b>Earnings per share (NOK 1)</b>					
Basic	18	0	47	5	41
Diluted	18	0	46	5	40
<b>Earnings per share continued operation (NOK 1)</b>					
Basic	18	0	2	(10)	(2)
Diluted	18	0	2	(10)	(2)

# STATEMENT OF FINANCIAL POSITION

## CONSOLIDATED

NOK million	Note	31.12.17	31.12.16
<b>Non-current assets</b>			
Deferred tax assets	10	26	9
Property, plant and equipment	11	11	12
Restricted cash	13,16	598	591
Receivables	12	484	510
<b>Total non-current assets</b>		<b>1 119</b>	<b>1 122</b>
<b>Current assets</b>			
Tax refund	10	0	397
Trade receivables and other current assets	12,16	5	8
Restricted cash	13,16	2	4
Bank deposits, cash and cash equivalents	13,16	133	89
<b>Total current assets</b>		<b>141</b>	<b>498</b>
<b>Total assets</b>		<b>1 259</b>	<b>1 620</b>
<b>Equity</b>			
Share capital	18	72	71
Other equity		409	366
<b>Total equity</b>		<b>481</b>	<b>437</b>
<b>Non-current liabilities</b>			
Deferred tax	10	0	23
Asset retirement obligations	17	593	563
Bond loan	14,16	158	153
<b>Total non-current liabilities</b>		<b>752</b>	<b>739</b>
<b>Current liabilities</b>			
Bond loan	14,16	-	377
Trade payables and other current liabilities	15,16	27	67
<b>Total current liabilities</b>		<b>27</b>	<b>444</b>
<b>Total liabilities</b>		<b>778</b>	<b>1 183</b>
<b>Total equity and liabilities</b>		<b>1 259</b>	<b>1 620</b>

# STATEMENT OF CHANGES IN EQUITY

## CONSOLIDATED

NOK million	Note	Share capital	Currency translation fund	Other equity	Total equity
<b>2016</b>					
Equity on 01.01.2016		71	465	(392)	144
Net result for the period			-	290	290
<b>Other comprehensive income for the period (net of tax)</b>					
Currency translation adjustments		-	(3)	-	(3)
<b>Total comprehensive income for the period (net of tax)</b>		-	(3)	290	286
<b>Transactions with owners</b>					
Proceeds from share issued	18	0	-	-	0
Share-based incentive program		-	-	7	7
<b>Total transactions with owners for the period</b>		0	-	7	7
Equity on 31.12.2016		71	462	(96)	437
<b>2017</b>					
Equity on 01.01.2017		71	462	(96)	437
Net result for the period			-	39	39
<b>Other comprehensive income for the period (net of tax)</b>					
Currency translation adjustments		-	(11)	-	(11)
<b>Total other comprehensive income for the period (net of tax)</b>		-	(11)	39	28
<b>Transactions with owners</b>					
Proceeds from share issued	19	1	-	3	4
Share-based incentive program		-	-	13	13
<b>Total transactions with owners for the period</b>		1	-	16	17
Equity on 31.12.2017		72	451	(42)	481



# STATEMENT OF CASH FLOWS

## CONSOLIDATED

NOK million	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
Net result for the period	(3)	334	39	290
Income tax benefit	(6)	(17)	(32)	(75)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>				
Tax paid	-	-	-	-
Tax refunded	401	119	401	119
Depreciation	0	-	1	1
Write-downs and reversal of write-downs	-	(244)	-	(244)
Expensed exploration expenditures previously capitalised	-	-	-	6
Share-based payments expenses	-	-	13	7
(Gain) / loss on sale of licences	-	-	-	(66)
Change in fair value of bonds	3	9	22	34
Interests received	-	-	-	3
Effect of changes in exchange rates	30	25	(11)	9
Paid abandonment cost	-	-	(9)	-
<b>Changes in working capital</b>				
Changes in trade receivable	3	(43)	29	-
Changes in trade payables	(55)	(64)	(40)	(1)
Changes in other current balance sheet items	25	(1)	(19)	71
<b>Net cash flow from operations</b>	<b>397</b>	<b>119</b>	<b>392</b>	<b>152</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible assets	-	-	-	6
Net cash outflow from divestment of assets	-	-	-	(31)
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25)</b>
<b>Cash flows from financing activities</b>				
Issue of share capital	-	-	4	-
PIK Interest	-	-	35	-
Repayment of bonds	(393)	(8)	(393)	(179)
Repayment of exploration facility	-	(107)	-	(110)
Repurchase own bonds	-	-	-	(170)
Interest paid	-	(1)	5	(31)
<b>Net cash flow from (used) in financing activities</b>	<b>(393)</b>	<b>(116)</b>	<b>(348)</b>	<b>(490)</b>
<b>Net change in cash and cash equivalents</b>	<b>4</b>	<b>2</b>	<b>44</b>	<b>(363)</b>
Cash and cash equivalents at the beginning of the period	129	87	89	452
<b>Cash and cash equivalents at end of the quarter</b>	<b>133</b>	<b>89</b>	<b>133</b>	<b>89</b>

# NOTES

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## 1 Accounting principles

Energy Company ASA (“Noreco”, the “Company” or the “Group”) is a public limited company registered in Norway, with headquarters in Oslo (Nedre Vollgate 1, 0158 Oslo). The Company has subsidiaries in Norway, Denmark and the United Kingdom.

Noreco is continuing work with the growth of the groups oil production within the two strategic areas of the UK and Danish sectors of the North Sea.

### Basis for preparation

The interim condensed consolidated financial statements (the interim financial statements) for the fourth quarter 2017 comprise Noreco and its subsidiaries. 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 for 2016. 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 interim financial statements for the fourth quarter of 2017 were authorised for issue by the board of directors on 14. of February 2018.

### 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 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 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 loans as of 31 December 2017.

### Discontinued operation

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

### Changes in accounting policies and disclosures

IASB has issued multiple new standards and interpretations that may impact the Group, which are described below. The Standards are issued but not yet effective, and the Group has not early adopted any of the Standards.

### IFRS 9 Financial instruments

IFRS 9, effective from 1 January 2018, will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new model for classification and measurement of financial assets and financial liabilities, a reformed approach to hedge accounting, and a more forward-looking impairment model. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. The standard permits early adoption, and was issued July 2014. IFRS 9 was endorsed by the EU in late 2016.

IFRS 9 implementation issues are currently not expected to have a material impact on the Consolidated balance sheet, statement of income and statement of cash flows.

Noreco will adopt IFRS 9 on 1 January, 2018.

### **IFRS 15 Revenue from contracts with customers**

IFRS 15 is a joint revenue recognition standard issued from IASB and FASB and is effective from 1 January 2018, with earlier adoption allowed. The standard presents a single, principles-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. The standard replaces existing IFRS requirements in IAS 11 Construction Contracts and IAS 18 Revenue, as well as supplemental IFRIC guidance. The standard was endorsed by EU on 29 October 2016. The Group has finalised the analysis of the impact on the Group's consolidated financial statements of the standard, but the effect on the financial statement is not significant since revenues are close to 0.

### **IFRS 16 Leases**

IFRS 16 was issued by IASB in January 2016, and is effective from 1 January 2019, covers the recognition of leases and related disclosure in the financial statements, and will replace IAS 17 Leases. In the financial statement of lessees, the new standard requires recognition of all contracts that qualify under its definition of a lease as right-of-use assets and lease liabilities in the balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the shorter of each contract's term and the assets' useful life. The

standard consequently implies a significant change in lessees' accounting for leases currently defined as operating leases under IAS 17, both with regard to impact on the balance sheet and the statement of income. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. While this definition is not dissimilar to that of IAS 17, it would have required further evaluation of each contract to determine whether all leases included or contracts currently not defined as leases, would qualify as leases under the new standard. The standard introduces new requirements both as regards establishing the term of a lease and the related discounted cash flows that determine the amount of a lease liability to be recognised. The standard requires adoption either on a full retrospective basis, or retrospectively with the cumulative effect of initially recognising the standard as an adjustment to retained earnings at the date of initial application, and if so with a number of practical expedients in transitioning existing leases at the time of initial application. The standard was endorsed in November 2017. The Noreco Group currently leases some office equipment and premises, currently classified as operating leases. Due to the size of lease payments and the duration of the contracts, IFRS 16 is not expected to have a material impact on the Consolidated balance sheet or statement of income.

## 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. The restructuring proposal was approved in March 2015, and Noreco has since focused on implementing the new strategy.

The new strategy entailed re-payment of bonds whenever the cash flow allowed it, and secure a return of investment to the shareholders. On the 2nd of March 2016 it was announced that the entire remaining E&P operation in Norway was sold to Det norske oljeselskap ASA (Aker BP). The transaction constituted a ceasing of all of Noreco Norway's petroleum activities, and Noreco initiated the process of claiming Exit refund during first half of 2017. During Q4 2017 Noreco Norway received the Exit refund and repaid NOK 393 million to the bondholders in accordance with the approved bondholder proposal of 16 March 2016.

In December 2016 Noreco announced that its fully owned subsidiary Noreco Oil UK Limited had entered into an agreement to transfer its 20 % participating interest in the Huntington license with all rights and obligations to Premier Oil E&P UK Limited resulting in the reversal of the previously accrued cost relating to production expense and asset retirement obligations relating to the license. Due to tax loss carry forward the reversal has no tax implications.

(NOK million)	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
Revenue	-	-	-	(0)
Production expenses	-	62	0	60
Exploration and evaluation expenses <sup>(1)</sup>	-	(0)	(2)	(16)
Payroll expenses	-	1	(0)	(14)
Other operating expenses	-	(10)	(4)	(24)
Other (losses) / gains	-	0	112	65
<b>Total operating expenses</b>	-	<b>53</b>	<b>106</b>	<b>70</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	-	<b>53</b>	<b>106</b>	<b>70</b>
Depreciation	-	-	(0)	-
Write-downs and reversals of write-downs	-	244	(0)	244
<b>Net operating result (EBIT)</b>	-	<b>297</b>	<b>106</b>	<b>314</b>
Financial income	-	18	2	11
Financial expenses	-	(0)	-	(31)
<b>Net financial items</b>	-	<b>18</b>	<b>2</b>	<b>(20)</b>
<b>Result before tax (EBT)</b>	-	<b>315</b>	<b>107</b>	<b>294</b>
Income tax benefit / (expense)	-	5	-	10
<b>Net Result for the period</b>	-	<b>320</b>	<b>107</b>	<b>304</b>

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

## 3 Revenue

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Sale of oil		3	3	7	9
Sale of gas and NGL		1	0	2	2
<b>Total Revenue continued operations</b>		<b>4</b>	<b>3</b>	<b>10</b>	<b>11</b>
<b>Total Revenue discontinued operations</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0)</b>
<b>Total Revenue</b>		<b>4</b>	<b>3</b>	<b>10</b>	<b>11</b>

## 4 Production expenses

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Lulita		(2)	(2)	2	(5)
<b>Total production expenses continued operations</b>		<b>(2)</b>	<b>(2)</b>	<b>2</b>	<b>(5)</b>
<b>Total production expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>62</b>	<b>0</b>	<b>60</b>
<b>Total production expenses</b>		<b>(2)</b>	<b>60</b>	<b>2</b>	<b>55</b>

## 5 Exploration and evaluation expenses

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Other exploration and evaluation costs		0	0	0	(0)
<b>Total exploration and evaluation costs continued operations</b>		<b>0</b>	<b>0</b>	<b>1</b>	<b>(0)</b>
<b>Total exploration and evaluation costs discontinued operations</b>	<b>2</b>	<b>-</b>	<b>(0)</b>	<b>(2)</b>	<b>(16)</b>
<b>Total exploration and evaluation costs</b>		<b>0</b>	<b>(0)</b>	<b>(1)</b>	<b>(16)</b>

## 6 Payroll expenses

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Salaries		(3)	(3)	(12)	(11)
Social security tax		(0)	(0)	(4)	(1)
Pension costs		(0)	(0)	(1)	(1)
Costs relating to share-based payments		-	-	(13)	(7)
Other personnel expenses		(0)	(0)	(0)	(0)
Personnel expenses charged to operated licences		-	-	-	0
<b>Total personnel expenses continued operations</b>		<b>(3)</b>	<b>(3)</b>	<b>(29)</b>	<b>(20)</b>
<b>Total personnel expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>(0)</b>	<b>(14)</b>
<b>Total personnel expenses</b>		<b>(3)</b>	<b>(2)</b>	<b>(30)</b>	<b>(34)</b>
Average number of employees, continued operations		8	4	8	6
Average number of employees, discontinued operations		-	-	-	10
Average number of employees		8	4	8	16

Share based payments relate to the option program decided at the EGM in January 2016 for the benefit of the executive management. This option programme was in March 2017 extended until March 2019. During the year former CEO Silje Augustson exercised 100,000 of her share options resulting in high social security cost in 2017. The Board allocated 80,000 new share options in the second quarter. As a result of the high volatility in the share price the cost relating to share based payment increased by approx. NOK 11 million.

## 7 Other operating expenses

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Premises		(0)	(0)	(2)	(1)
IT expenses		(0)	(0)	(2)	(1)
Travel expenses		(1)	(0)	(2)	(2)
Office cost		(0)	(0)	(0)	(0)
Consultant fees		(9)	35	(26)	(0)
Other operating expenses		(0)	(3)	(2)	(4)
<b>Total other operating expenses continued operations</b>		<b>(11)</b>	<b>31</b>	<b>(33)</b>	<b>(9)</b>
<b>Total other operating expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>(10)</b>	<b>(4)</b>	<b>(24)</b>
<b>Total other operating expenses</b>		<b>(11)</b>	<b>21</b>	<b>(37)</b>	<b>(33)</b>

## 8 Other (losses) / gains

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Change in value, other derivatives		-	-	-	1
Gain /(loss) on sale of assets		-	-	-	0
<b>Total other (losses)/gains continued operations</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total other (losses)/gains discontinued operations</b>	<b>2</b>	<b>-</b>	<b>0</b>	<b>112</b>	<b>65</b>
<b>Total other (losses) / gains</b>		<b>-</b>	<b>0</b>	<b>112</b>	<b>66</b>

## 9 Financial income and expenses

### Financial income

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Interest income		2	2	5	3
Change in fair value of bond debt <sup>(1)</sup>		2	-	2	0
Currency translation income		32	30	104	78
Other financial income		-	4	-	1
<b>Total financial income continued operations</b>		<b>36</b>	<b>35</b>	<b>110</b>	<b>82</b>
<b>Total financial income discontinued operations</b>	<b>2</b>	<b>-</b>	<b>18</b>	<b>2</b>	<b>11</b>
<b>Total financial income</b>		<b>36</b>	<b>53</b>	<b>112</b>	<b>93</b>

1) See note 16

### Financial expenses

(NOK million)	Note	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
<b>Continued operations</b>					
Interest expense from bond loans		(0)	(10)	(31)	(45)
Interest expenses current liabilities		0	0	0	(0)
Accretion expense related to asset retirement obligations		(0)	(0)	(0)	(0)
Currency translation expense		(31)	(41)	(101)	(80)
Change in fair value of bond debt <sup>(1)</sup>		(3)	(9)	(22)	(14)
Other financial expenses		(1)	(0)	(6)	0
<b>Total financial expenses continued operations</b>		<b>(33)</b>	<b>(61)</b>	<b>(160)</b>	<b>(139)</b>
<b>Total financial expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>(31)</b>
<b>Total financial expenses</b>		<b>(33)</b>	<b>(61)</b>	<b>(160)</b>	<b>(170)</b>
<b>Net financial items continued operation</b>		<b>3</b>	<b>(26)</b>	<b>(49)</b>	<b>(57)</b>
<b>Net financial items discontinued operation</b>	<b>2</b>	<b>-</b>	<b>18</b>	<b>2</b>	<b>(20)</b>
<b>Net financial items</b>		<b>3</b>	<b>(7)</b>	<b>(48)</b>	<b>(77)</b>

1) See note 15

# 10 Tax

## Income tax

(NOK million)	Q4 2017	Q4 2016	YTD Q4 2017	YTD Q4 2016
Income (loss) before tax	(9)	317	7	215
Income tax benefit / (expense)	6	17	32	89
Equivalent to a tax rate of	67.8 %	(5.4 %)	(458.6 %)	(41.4 %)

The effective tax rate for the quarter is approximately 68 percent. Noreco operates in three countries and different tax regimes with separate tax rates. As such, the weighted average tax rate varies from quarter to quarter based on variations of the tax basis.

Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities have, or are expected to have a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Tax loss carry forward 31.12.17 (NOK million)	Offshore		Onshore	
	Recognised	Un-Recognised	Recognised	Un-Recognised
<i>Norway (offshore 53 % / onshore 25 %)</i>				
Norwegian Energy Company ASA	-	-	-	649
Altinex AS	-	-	-	-
Noreco Norway AS	-	-	-	-
<i>Denmark (offshore 39 % / onshore 25 %)</i>				
Noreco Denmark A/S	-	-	-	-
Noreco Oil Denmark A/S	334	4 961	-	-
Noreco Petroleum Denmark A/S	13	822	-	-
<i>UK (offshore 20 % / onshore 30 %)</i>				
Norwegian Energy Company (UK) Ltd.	-	679	-	679
Noreco Oil (UK) Ltd.	-	769	-	596
<b>Total tax loss carry forward</b>	<b>347</b>	<b>7 231</b>	<b>-</b>	<b>1 924</b>

Recognized tax loss carry forwards in the Danish offshore tax regime of NOK 347 million has been calculated according to Chapter 2 in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Un-recognized tax loss carry forwards in the Danish offshore tax regime of NOK 5 783 million has been calculated according to Chapter 3A in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven).

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

Noreco Norway received the Exit refund of NOK 393 million and a tax refund of NOK 8 million during fourth quarter 2017. In January 2016 Noreco Oil Denmark A/S received a ruling resulting in an increased tax payment for 2011 of NOK 37 million which has been accounted for. However, the Company is of the opinion that all transactions have been treated correctly in the submitted tax returns and the ruling therefore has been challenged.



## 11 Property, plant and equipment

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.17	2	6	8
Additions	9	1	10
Disposals	-	(0)	(0)
Currency translation adjustment	(10)	(0)	(10)
<b>Acquisition costs 31.12.17</b>	<b>2</b>	<b>6</b>	<b>8</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.17	(1)	(6)	(6)
Depreciation	-	(0)	(0)
Disposals	-	-	-
Write-downs	-	-	-
Currency translation adjustment	9	0	9
<b>Accumulated depreciation and write-downs 31.12.17</b>	<b>9</b>	<b>(5)</b>	<b>3</b>
<b>Book value 31.12.17</b>	<b>10</b>	<b>1</b>	<b>11</b>

## 12 Non-current receivables, trade receivables and other current assets

(NOK million)	31.12.17	31.12.16
<b>Non-current assets</b>		
Other receivables <sup>(1)</sup>	484	510
<b>Total non-current receivables</b>	<b>484</b>	<b>510</b>
<b>Current assets</b>		
Trade receivables	2	6
Receivables from operators relating to joint venture licences	0	0
Underlift of oil/NGL	2	1
Prepayments	0	0
Other receivables	0	0
<b>Total trade receivables and other current receivables</b>	<b>5</b>	<b>8</b>

1) On December 15 2016 the court ruling on the Siri Insurance Claims was announced. The Maritime and Commercial High Court in Copenhagen ruled in favour of the claimants (Noreco and its partners; Awilhelmsen Special Opportunities AS and QVT Financial LP) an amount to approximately USD 470 million, including interest. Of the total amount, Noreco is entitled to approximately USD 270 million. Noreco's share, excluding interest, amounts to USD 207 million equal to NOK 1.6 billion less tax. As of 31 of December 2017 only 484 MNOK is presented in the Balance sheet. On 27 February 2017, it was announced that the Eastern High Court in Copenhagen Received an appeal from the counterparty in relation to the SIRI Insurance Claims court case. The Eastern High Court accepted to handle the appeal on 14 March 2017 and a ruling is expected in the first half 2018.

It is the view of management that the ruling was so strong that the accounts should reflect this position, however due to IFRS regulation this is not possible.

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

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

(NOK million)	31.12.17	31.12.16
<b>Non-current assets</b>		
Restricted cash pledged as security for abandonment obligation in Denmark, DKK 445 million plus interest (see note 19)	579	547
Other restricted cash and bank deposits	19	43
<b>Total non-current restricted cash</b>	<b>598</b>	<b>591</b>
<b>Current assets</b>		
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	2	4
<b>Total current restricted cash</b>	<b>2</b>	<b>4</b>
Unrestricted cash, bank deposits, cash equivalents and quoted shares	133	89
<b>Total bank deposits</b>	<b>733</b>	<b>684</b>

### Restricted cash

Not included in above is a deposit to the benefit of Noreco made by Awilhelmensen Special Opertunities AS and QVT Finacial LP in relation to an agreed secured minimum payment of USD 15 mill on the Siri-claim less legal fees.

Any currency exposure in the subsidiary connected with the ARO of DKK 437 million. has been hedged in the group by a pledge bank account in the parent company containing the same amount in DKK . Any currency gains or losses from this has been recognised as other comprehensive income.

# 14 Borrowings

## 14.1 Principal amounts and book values

(NOK million)	31.12.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
<b>Non-current debt</b>				
NOR10 bond loan	165	158	156	153
<b>Total non-current bonds</b>	<b>165</b>	<b>158</b>	<b>156</b>	<b>153</b>
<b>Current debt</b>				
NOR06	-	(0)	474	377
<b>Total current bonds</b>	<b>-</b>	<b>(0)</b>	<b>474</b>	<b>377</b>
<b>Total borrowings</b>	<b>165</b>	<b>158</b>	<b>630</b>	<b>530</b>

## 14.2 Subsequent measurement and events in fourth quarter

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. Early tax assessment was approved for Noreco Norway, and the company received the tax refund in fourth quarter 2017. In accordance with the approved bondholders' proposal of 16 March 2016, Noreco Norway has repaid the NOR06 bondholders with the Exit refund of approximately NOK 393 million, after which the NOR06 bond was discharged. Noreco has designated the amended and restated bond loans at fair value through profit or loss. The following fair values were applied for the amended and restated bond loans at the end of fourth quarter 2017:

Amended and restated NOR10 96.1 %

It is assumed that the change in fair value in the fourth quarter 2017 in it's entirety is attributable to change in own credit risk.

# 15 Trade payables and other current liabilities

(NOK million)	31.12.17	31.12.16
Trade payable	2	7
Liabilities to operators relating to joint venture licences	0	24
Accrued interest	3	14
Public duties payable	1	0
Other current liabilities	20	21
<b>Total other current liabilities</b>	<b>27</b>	<b>67</b>

# 16 Financial instruments

## 16.1 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 31.12.2017

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		(0)		(0)
<b>Total assets</b>	-	(0)	-	(0)
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			158	158
<b>Total liabilities</b>	-	0	158	158

On 31.12.2016

(NOK million)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Underlift of oil		0		0
<b>Total assets</b>	-	0	0	0
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			530	530
<b>Total liabilities</b>	-	-	530	530

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.

Due to low volumes being traded Noreco has used valuation techniques in order to estimate the fair value on the NOR10 bond loan.

## 16.2 Financial instruments by category

On 31.12.2017

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	5		5
Restricted cash	600		600
Bank deposits, cash, cash equivalents and quoted shares	133	0	133
<b>Total</b>	<b>738</b>	<b>0</b>	<b>738</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds		158	158
Other interest bearing debt	(1)		(1)
Trade payables and other current liabilities	27	0	27
<b>Total</b>	<b>26</b>	<b>158</b>	<b>185</b>

On 31.12.2016

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	7	1	8
Restricted cash	595	-	595
Bank deposits, cash and cash equivalents	89	-	89
<b>Total</b>	<b>691</b>	<b>1</b>	<b>692</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds	0	530	530
Other interest bearing debt	(0)	-	(0)
Trade payables and other current liabilities	67	(0)	67
<b>Total</b>	<b>67</b>	<b>530</b>	<b>597</b>

## 16.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 December 2017:

(NOK million)	Carrying amount	Fair value
<b>Financial assets:</b>		
Trade receivables and other current assets	5	5
Restricted cash	600	600
Bank deposits, cash, cash equivalents and quoted shares	133	133
<b>Total</b>	<b>738</b>	<b>738</b>
<b>Financial liabilities:</b>		
Bond loans	158	158
Other interest bearing debt	0	0
Trade payables and other current liabilities	27	27
<b>Total</b>	<b>185</b>	<b>185</b>

## 17 Asset retirement obligations

(NOK million)	31.12.17	31.12.16
Balance on 1.1.	563	837
Provisions and change of estimates made during the year	(4)	(35)
Abandonment cost paid	(9)	0
Accretion expenses	0	0
Reclassified to liabilities held for sale	-	12
Reversed provision from disposal of assets	-	(256)
Currency translation	43	5
<b>Total provision made for asset retirement obligations</b>	<b>593</b>	<b>563</b>

As part of the overall restructuring, an agreement was reached that entails that the partners will take over Noreco's share of the Nini and Cecilie licences. The restricted cash account of originally DKK 445 million adjusted for interest, set aside for future abandonment costs for Nini and Cecilie will not be transferred. The Danish part of Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount which equals the restricted cash account. Total provision made for asset retirement obligations reflects this.

In 2016 Noreco received a new estimate on the abandonment of the Lulita field. Noreco is investigating the amount and has made its own preliminary assessment resulting in an increased provision of NOK 10 million.

During 2017 Noreco reached an agreement of transfer with the operator, Premier E&P, on the Huntington field following which Noreco has reversed the obligation for any abandonment on the field.

Hence, the balance as per 31.12.2017 is NOK 578 million for Nini/Cecilie and NOK 15 million for Lulita.

## 18 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2016	7 094 730	71
<i>Change in share capital in 2017</i>	<i>100 000</i>	<i>1</i>
Number of shares and share capital 31 December 2017	7 194 730	72

## 19 Subsequent events

As a consequence of the transaction with Det norske oljeselskap ASA (Aker BP), Noreco Norway ceased all of its petroleum activities. Noreco Norway initiated the process of claiming Exit refund during first half of 2017, and during Q4 2017 Noreco Norway received the Exit refund. In accordance with the approved bondholder proposal, as of March 2016, Noreco Norway repaid approximately NOK 393 million to the bondholders, and the remaining NOR06 bond debt was discharged, resulting in a large taxable profit. To neutralise the tax effect a group contribution was made. Following the group contribution Noreco Norway was in Q1 2018 liquidated.

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### Financial calendar 2018

15 February Q4 2017 Report

24 May Annual General Meeting (Oslo)

24 May Q1 2018 Report

23 August Q2 2018 Report

15 November Q3 2018 Report

### Board of Directors Noreco

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Lars Purlund

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### Annual reports

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

### Quarterly publications

Quarterly reports and supplementary information for investors and analysts are available on [www.noreco.com](http://www.noreco.com).

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