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NORECO NORWAY AS
FIRST QUARTER
2017

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REPORT FOR THE FIRST QUARTER 2017

NORECO NORWAY AS

SUMMARY

- Following the transaction with Det Norske Oljeselskap ASA (Detnor) all hydro carbon 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.
- The company expects to settle the outstanding bond NOR06 in 2017.

BUSINESS DEVELOPMENT AND OUTLOOK

Noreco Norway has following the transaction with Detnor ceased all hydro carbons activity and management has focused on monetising the tax loss and other remaining assets.

The company expects to seek early tax assessment and the subsequent dissolution of the company during 2017 and will be settling NOR06 in accordance with the approved bondholder proposal of 16 March 2016.

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

FINANCIALS

Net financial items from continued operations amounted to a negative amount of NOK 26 million for the first quarter 2017 and relate to change in fair value and interest on bond loan. In the same period in 2016 the net financial items was loss of NOK 8 million mainly related to interest.

Taxes from continued operations amounted to an income of NOK 7 million for the first quarter 2017. The deferred tax asset is computed using the tax rates for 2017 (24 per cent/54 percent).

Income from discontinued operation in first quarter 2017 amounted to NOK 111 million. This is due to the Zidane Agreement being accounted for. Income from discontinued operation in Q1 2016 amounted to NOK 33 million.

Net result for the first quarter of 2017 amounted to a profit of NOK 91 million, compared to NOK 26 million for the first quarter 2016.

At the end of the first quarter 2017 Noreco Norway had a total of cash and cash equivalents of NOK 5 million.

Equity amounted to NOK 75 million at the end of the period. The equity was negative at year end 2016 NOK 16 million.

The bond loan's book value was NOK 411 million (principal amount NOK 489 million) at the end of the first quarter 2017 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 first quarter, based on the expected repayment from exit refund and the proceeds from the settlement of the sale of Dvalin (Zidane) as described in the approved bondholder proposal as of 16 March 2016.

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 risks Noreco Norway is facing for the next twelve months are related to tax and transaction risk.

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	Q1 2017	Q1 2016	2016
Continued operations				
Revenue		-	-	-
Other operating expenses	3	(0)	(2)	(4)
Total operating expenses		(0)	(2)	(4)
Operating result before depreciation and write-downs (EBITDA)		(0)	(2)	(4)
Net operating result (EBIT)		(0)	(2)	(4)
Financial income	4	0	2	2
Financial expenses	4	(26)	(10)	(48)
Net financial items		(26)	(8)	(46)
Result before tax (EBT)		(26)	(10)	(49)
Income tax benefit / (expense)	5	7	3	12
Net result for the period continued operation		(20)	(7)	(37)
Discontinued operation				
Profit (loss) from discontinued operation (net of income tax)	2	111	33	21
Net result for the period		91	26	(16)
Total comprehensive income for the period (net of tax)		91	26	(16)

STATEMENT OF FINANCIAL POSITION

NOK million	Note	31.03.17	31.12.16
Non-current assets			
Deferred tax assets	5	0	-
Tax refund	5	0	(0)
Restricted cash	7,10	-	2
Total non-current assets		0	2
Current assets			
Tax refund	5	397	397
Trade receivables and other current assets	6,10	114	1
Bank deposits, cash and cash equivalents	7,10	5	6
Total current assets		516	404
Total assets		516	406
Equity			
Share capital	11	1 234	1 234
Other equity		(1 159)	(1 249)
Total equity		75	(16)
Non-current liabilities			
Deferred tax	5	16	23
Total non-current liabilities		16	23
Current liabilities			
Bond loan	8,10	411	377
Other interest bearing debt	8,10	-	-
Debt to group companies	8,10	11	11
Trade payables and other current liabilities	9,10	3	10
Total current liabilities		425	399
Total liabilities		441	422
Total equity and liabilities		516	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		26	26
Total comprehensive income for the period (net of tax)		26	26
Transactions with owners			
Proceeds from share issued			-
Share-based incentive program			-
Total transactions with owners for the period	-	-	-
Equity on 31.03.2016	1 234	(1 208)	26
2017			
Equity on 01.01.2017	1 234	(1 248)	(14)
Net result for the period		91	91
Total comprehensive income for the period (net of tax)		91	91
Total transactions with owners for the period		-	-
Equity on 31.03.2017	1 234	(1 159)	75

STATEMENT OF CASH FLOWS

NOK million	Q1 2017	Q1 2016
Net result for the period	91	26
Income tax benefit	(7)	(12)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>		
Expensed exploration expenditures previously capitalised	-	1
Share-based payments expenses	-	-
Change in fair value of bond	18	(2)
Gain on extinguishment of debt	-	-
Paid/received interests and borrowing cost - net	-	-
Effect of changes in exchange rates	-	1
Accretion expense related to asset retirement obligations	-	-
Tax refund	(0)	0
<i>Changes in working capital</i>		
Changes in trade receivable	(113)	5
Changes in trade payables	(7)	0
Changes in other current balance sheet items	1	135
Net cash flow from operations	(17)	153
Cash flows from investing activities		
Purchase/sale of intangible assets	-	(1)
Net cash flow from divestment of assets	-	(20)
Net cash flow used in investing activities	-	(21)
Cash flows from financing activities		
Issue of share capital	-	0
Proceeds from utilisation of exploration facility	-	(153)
Repayment of bonds	-	-
Repayment of exploration facility	-	(3)
PIK interest	15	-
Interest paid	-	(22)
Net cash flow from (used) in financing activities	15	(178)
Net change in cash and cash equivalents	(1)	(46)
Cash and cash equivalents at the beginning of the period	6	100
Cash and cash equivalents at end of the quarter	5	54

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 first quarter of 2017 were authorised for issue by the board of directors on 23 May 2017.

Basis for preparation

The interim condensed financial statements (the interim financial statements) for the first quarter 2017 comprise Noreco Norway AS. 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 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 31 March 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 are 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 2017

There have been no changes to significant accounting policies in the first 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. Noreco initiated during the winter a financial restructuring process and a restructuring proposal was presented in February 2015. 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 effective date of the transaction was 1 January 2016. 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 2016, and the deal was consequently completed at the end of second quarter 2016. The DetNor transaction constitutes a ceasing of all of Noreco Norway's petroleum activities, and Noreco has started the process of claiming "Exit-refund" as of 31 december 2016.

(NOK million)	Q1 2017	Q1 2016
Revenue	-	-
Production expenses	-	-
Exploration and evaluation expenses ⁽¹⁾	(1)	(6)
Payroll expenses	(0)	(8)
Other operating expenses	(0)	(4)
Other (losses) / gains ⁽²⁾	112	43
Total operating expenses	111	25
Operating result before depreciation and write-downs (EBITDA)	111	25
Depreciation	-	-
Write-downs and reversals of write-downs	-	-
Net operating result (EBIT)	111	25
Financial income	-	-
Financial expenses	(0)	(2)
Net financial items	(0)	(2)
Result before tax (EBT)	111	23
Income tax benefit / (expense)	-	10
Net result for the period	111	33

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)	Q1 2017	Q1 2016
Consultant fees	(0)	(7)
Total other operating expenses continued operation	(0)	(7)
Total other operating expenses discontinued operation	(0)	(4)
Total other operating expenses	(1)	(11)

4 Financial income and expenses

Financial income

(NOK million)	Q1 2017	Q1 2016
Interest income	0	-
Interest income from other group companies	0	-
Change in fair value of bond debt	0	2
Other financial income	0	-
Total financial income continued operation	0	2
Total financial income discontinued operation	0	0
Total financial income	0	3

Financial expenses

(NOK million)	Q1 2017	Q1 2016
Interest expense from bond loans	(8)	(10)
Interest expense to other group companies	-	-
Change in fair value of bond debt	(18)	0
Other financial expenses	(0)	-
Total financial expenses continued operation	(26)	(10)
Total financial expenses discontinued operation	(0)	(2)
Total financial expenses	(26)	(12)
Net financial items continued operation	(26)	(8)
Net financial items discontinued operation	(0)	(2)
Net financial items	(26)	(10)

5 Tax

Income tax

(NOK million)	Q1 2017	Q1 2016
Income (loss) before tax	84	14
Income tax benefit (expense)	7	12
Equivalent to a tax rate of	(8 %)	(91.4 %)

The tax rate for the first quarter of 2017 was impacted by changes in value on bond debt, measured at market price and the Dvalin (Zidane) success payment.

Noreco Norway has a marginal tax rate of 78 percent, of which 24 percent relates to the ordinary tax rate in Norway and 54 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 2017 (24%/54%) adjusted for the deferred tax.

Tax loss carry forward 31.03.17 (NOK million)	Offshore		Onshore	
	Recognised	Un-recognised	Recognised	Un-recognised
Noreco Norway AS	510	-	516	28
Total tax loss carry forward	510	-	516	28

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 397 million, which includes an Exit refund of approximately NOK 389 million and NOK 8 million in other refunds. In addition a deferred tax liability of approximately NOK 16 million mainly 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 377 million in Exit refund in addition to the success payment on Zidane of approximately NOK 34 million.

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)	31.03.2017	31.12.2016
Trade receivables due to Zidane/Dvalin contingent payment	113	-
Receivables from operators relating to joint venture licences	-	-
Underlift of oil/NGL	-	-
Prepayments	-	-
Other receivables	1	1
Total trade receivables and other current receivables	114	1

7 Restricted cash, bank deposits, cash and cash equivalents

Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	31.03.2017	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	5	6
Total bank deposits	5	8
Accessible liquidity at period end	5	6

8 Borrowings

8.1 Principal amounts and book values

(NOK million)	31.03.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
Non-current debt				
NOR06 bond loan, amended and restated	489	411	474	377
Total non-current bonds	489	411	474	377
Exploration loan	-	-	-	-
Total non-current other interest bearing debt	-	-	-	-
Current debt				
NOR06 bond loan, amended and restated	(0)	-	(0)	-
Total current bonds	(0)	-	(0)	-
Exploration loan	-	-	(0)	(0)
Debt to group companies	11	11	11	11
Total current other interest bearing debt	11	11	11	11
Total borrowings	500	422	485	388

Borrowings are recognised initially at fair value. As of the end of Q1 2017 a fair value of 84% has been applied for the amended and restated bond loan.

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 Q1 17 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 to approximately NOK 489 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 EXIT refund from the Norwegian tax authorities as described in note 5 and the Dvalin (Zidane) success payment. The following fair value was applied for the NOR06 bond loan at the end of first quarter 2017:

NOR06 bond loan 84 %

9 Trade payables and other current liabilities

(NOK million)	31.03.17	31.12.16
Trade payable	-	-
Liabilities to operators relating to joint venture licences	-	-
Accrued interest	3	10
Public duties payable	-	-
Other current liabilities	-	-
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 31.03.2017

(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			411	411
Total liabilities	-	-	411	411

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 31.03.2017

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	114	-	114
Restricted cash	-	-	-
Bank deposits, cash and cash equivalents	5	-	5
Total	119	-	119

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loans	-	411	411
Other interest bearing debt	-	-	-
Debt to group companies Ringfence 1	11	6	17
Trade payables and other current liabilities	3	-	3
Total	14	411	431

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	0	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
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 31 March 2017:

(NOK million)	Carrying amount	Fair value
Financial assets:		
Trade receivables and other current assets	114	114
Restricted cash	-	-
Bank deposits, cash and cash equivalents	5	5
Total	119	119
Financial liabilities:		
Bonds	411	411
Debt to group companies	11	11
Trade payables and other current liabilities	3	3
Total	425	425

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>		
31 March 2017	141 001	1 234

IIINFORMATION 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
22 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 investorrelations@noreco.com.

News releases

In order to receive news releases from Noreco, please register on www.noreco.com or send an email to investorrelations@noreco.com.



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