



Norwegian Energy Company ASA
Fourth Quarter 2019

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Fourth Quarter 2019 summary

Highlights

- Net hydrocarbon production of 31,7 mboepd in the quarter, following temporarily shut down of production on Tyra.
- Net Cash flow from operating activities of USD 87 million in the quarter.
- Improvement of terms of the RBL facility providing Noreco with additional financial flexibility.
- Successful placement of a USD 175 million senior unsecured bond issue which attracted strong international investor interest and was significantly oversubscribed.
- Buy back of 299,925 shares executed in January 2020.
- “Safe state” reached for Tyra in January 2020.

Financial and operational summary	Unit	Q4 2019	Q4 2018	2019	2018
Total revenue	USDm	172	1	333	2
EBITDA¹⁾	USDm	59	(15)	125	(19)
Adj. EBITDA¹⁾	USDm	116	(15)	236	(20)
Net result for the period	USDm	44	(2)	215	(5)
Net Cash flow from operating activities	USDm	87	(5)	198	(2)
Investments	USDm	41	40	86	40
Abandonment spend ¹⁾	USDm	24	-	34	-
Reserve based lending facility	USDm	746	-	746	-
Net interest-bearing debt ¹⁾	USDm	819	52	819	52
Oil production ²⁾	mboepd	23,7	-	25,5	0,0
Gas production ²⁾	mboepd	8,0	0,1	10,2	0,0
Total production²⁾	mboepd	31,7	0,1	35,7	0,1
Over/underlift	mboepd	(2,2)	(0,0)	0,5	(0,0)
Realized Oil price	USD/boe	77,2	58,7	76,4	65,4

1) See the description of “Alternative performance measures” at the end of this report for definitions.

2) Production figures reflect the contribution from the acquired DUC assets from 1 August 2019. Production figures do not take into account the volume guarantee.

Financial review

Selected data from consolidated statement of comprehensive income

All figures in USD million*	Q4 2019	Q4 2018	2019	2018
Total revenue	172	1	333	2
EBITDA	59	(15)	125	(19)
EBIT	31	(15)	(212)	(19)
Result before tax	47	(12)	(185)	(18)
Net result for the period	44	(12)	215	(17)
Earnings per share	1,8	(1,7)	8,8	(2,3)

* As a result of the material change in the Group's business following the Shell transaction the presentation currency of the Group was changed to US dollars (USD). Comparative figures for previous periods have been restated. See note 1 for more details.

The Company had **revenues** of USD 172 million in the fourth quarter of 2019 mainly relating to revenue from oil and gas sales from the DUC fields compared to USD 1 million in the fourth quarter of 2018 and USD 333 million for the year 2019.

Production expenses amounted to USD 102 million in the fourth quarter of 2019 compared to USD 0,1 million in the fourth quarter of 2018. Of this amount USD 72 million was directly attributable to the lifting and transport of the Company's oil and gas production. These production expenses include a negative USD 11 million of underlift adjustment and USD 5 million of crude oil inventory adjustment. During the period Noreco recognised USD 22 million of exceptional charges related to DUC's organisational restructuring and the write-down of inventory.

Personnel expenses in fourth quarter of 2019 were USD 3 million compared to USD 1 million in the fourth quarter of 2018 due to additional headcount as a result of the acquisition. Total cost for the year 2019 was USD 18 million of which USD 10 million was related to share based payments.

Other operating expenses were USD 8 million for the fourth quarter of 2019 compared to USD 16 million in the fourth quarter of 2018. The expenses in 2018 were mainly related to consulting fees associated with the transaction, and accrued litigation fees from pursuing the Siri claim as well as court order legal fees.

EBITDA (operating result before depreciation and write-downs) in the fourth quarter of 2019 was USD 59 million

compared to USD -15 million in fourth quarter of 2018.

Adjusted EBITDA for the fourth quarter was USD 116 million and USD 236 million for 2019.

Impairment of USD 12 million was related to a reversal of goodwill impairment as a result of an adjustment to the preliminarily purchase price allocation ("PPA") in connection to the Shell transaction.

Net Financial items amounted to an income of USD 16 million for the fourth quarter of 2019, compared to USD 3 million in the fourth quarter of 2018. The effect in the fourth quarter of 2019 is mainly due to change in market value of derivatives which primarily represents the value of the Company's commodity price hedging (not part of company's hedge accounting) and fair value adjustment of the volume guarantee. In addition to interest expenses and the amortised cost on the bank and bond debt.

Income Tax amounted to USD -3 million for the fourth quarter of 2019 compared to USD 0 million for the fourth quarter of 2018. The tax income for the year 2019 is related to the recognition of deferred tax losses in Denmark due to the increased expected future profit from the acquisition of the DUC assets. Reference is made to note 8 in the interim financial report for further details to the taxes this period.

Net result for the fourth quarter of 2019 is USD 44 million, compared to USD -12 million for the fourth quarter of 2018. Net result for 2019 was USD 215 million compared to USD -17 million for the year 2018.

Selected data from the consolidated statement of financial position

All figures in USD million	Q4 2019	Q3 2019	2019	2018
Total non-current assets	2 414	2 437	68	68
Total current assets	523	426	57	57
Total assets	2 937	2 864	124	124
Total equity	573	559	(6)	(6)
Interest bearing debt	983	904	(0)	(0)
Asset retirement obligations	967	981	68	68

Total non-current assets were mainly related to PP&E of USD 1,7 billion, in addition to a deferred tax asset of USD 471 million, USD 115 million restricted cash and USD 78 million derivatives.

Current assets amounted to USD 523 million at the end of the 2019, of which USD 61 million is related to accrued revenue, USD 286 million is cash, USD 104 million is related to the liquid volume protection agreement with Shell, USD 31 million is related to offshore insurance premium that is paid in advance and USD 36 million is related to inventory.

Equity amounted to USD 573 million at the end of the 2019, compared to USD -6 million at the end of 2018.

Asset retirement obligations amounted to USD 967 million at the end of 2019, quarter compared to USD 68 million at the end of 2018. USD 900 million is related to the DUC assets. Part of the asset retirement obligation is secured through an escrow account of USD 65 million.

Interest-bearing debt related to the convertible bond loan NOR13 had a book value of USD 108 million at the end of the 2019. The convertible bond loan is valued at amortised cost and the embedded derivatives are accounted for as a derivative liability at fair value through profit and loss. Noreco's USD 900 million RBL facility was drawn USD 746 million at the end of the period. In the end of Q4 2019 Noreco successfully completed a new 6.5-year senior unsecured bond issue of USD 175 million with a coupon rate of 9.00 percent, issued at par. The net proceeds from the bond issue will be used for general corporate purposes.

Selected data from the consolidated statement of cash flows

All figures in USD million	Q4 2019	Q4 2018	2019	2018
Cash flow from operating activities	87	(5)	198	(2)
Cash flow used in investing activities	(67)	(40)	(1 223)	(40)
Cash flow from financing activities	131	36	1 309	29
Net change in cash and cash equivalents	151	(9)	283	(13)
Cash and cash equivalents	286	3	286	2

Cash flow from operating activities amounted to USD 87 million at the end of fourth quarter 2019, compared to negative USD 5 million for the same period in 2018.

Cash flow used in investing activities amounted to USD 67 million at the end of the quarter mainly related to USD 66 million of locked box interest paid to Shell, capex on the DUC asset of USD 41 million, of which USD 32 million is linked to the Tyra redevelopment and benefit received from the volume guarantee of USD 40 million.

Cash flow from financing activities amounted to USD 131 million at the end of the Fourth Quarter, compared to negative USD 36 million for the same period in 2018. During the fourth quarter of 2019, Noreco issued a new USD 175 million senior unsecured bond, in addition USD 24 million in abandonment expenditure were paid, of which USD 21 million is related the Tyra redevelopment.

Net change in cash and cash equivalents amounted to USD 151 million in the quarter compared to USD (9) million in 2018. Cash and cash equivalents were in total USD 286 million at the end of 2019.

Hedging

The Company actively seeks to reduce the risk it is exposed to regarding fluctuating commodity prices through the establishment of hedging arrangements. As of 1 October 2019, Noreco is applying hedge accounting.

Noreco has to date executed this policy in the market through a combination of forward contracts and options, and in addition benefits from the risk mitigation elements inherent in the agreement to acquire SOGU from Shell.

As part of the agreement to acquire SOGU, Noreco has a liquid volume protection agreement with Shell that will, from signing of the transaction until the end of 2020 (the "Protection Period"), provide a monthly liquid production guarantee at levels above the Company's current internal forecasts. To the extent that actual production levels are below the pre-agreed level in the Protection Period, Noreco will receive a monthly cash payment from Shell. The fair value of the volume guarantee was recognised as a reduction in the acquisition purchase price. Any changes to the fair value will be recognized at through profit and loss. For the period 2021 to 2023 (the "Recovery Period"), a payment to Shell may be required if actual production exceeds a pre-agreed level that is currently above the Company's internal forecasts. The amount refunded to Shell during the Recovery Period cannot exceed the value of Noreco's claims during the Protection Period.

As part of the Shell transaction, Noreco price hedged 80% of the guaranteed production at signing of the SPA in line with market prices at the time. Subsequent to closing of the transaction in August 2019, Noreco entered into a combination of forward contracts and options in the market to further reduce the Company's exposure to commodity price volatility and fully hedged the remaining portion of its guaranteed production under the liquid volume protection agreement with Shell in the market. Noreco has also entered into additional contracts to protect its minimum oil price received during 2021 and 2022.

As part of the RBL Facility, Noreco has a rolling hedge requirement based on a minimum level of production corresponding to the RBL banking case forecast: 50% of oil equivalent volumes in the year following, 40% in two years following and 30% in three years following, subject to a maximum level in each of these periods of 70%. At the end of Q4 2019, Noreco is in full compliance with this requirement.

	Liquids hedged (mmboe)	Average hedged price
Q1 2020*	2,6	71,2
2020*	10,2	67,5
2021	5,9	56,2
2022	4,3	55,7

* All hedged liquid volumes are protected by a volume guarantee from Shell

Financing

During the Fourth Quarter of 2019, Noreco issued a new USD 175 million senior unsecured bond with a coupon rate of 9.00 percent and maturity in June 2026.

The net proceeds from the issue will be used for general corporate purposes to further strengthen Noreco's financial position and to diversify the Company's sources of capital.

Operational review

Production

Key figures	Unit	Q4 2019	Q4 2018	2019**	2018
Dan hub	mboepd	8,6	0,0	8,9	0,0
Gorm hub	mboepd	4,6	0,0	5,1	0,0
Halfdan hub	mboepd	18,6	0,0	18,5	0,0
Tyra hub*	mboepd	0,0	0,1	3,1	0,1
Total production	mboepd	31,7	0,1	35,7	0,1
Over/-underlift	mboepd	-2,2	0,0	0,5	0,0
Net sales	mboepd	29,5	0,1	36,2	0,1
Oil sales	mboepd	21,5	0,0	26,1	0,03
Gas sales	mboepd	8,0	0,1	10,2	0,03
Operating efficiency	%	82,6 %	88,0 %	86,0 %	81,2 %

* Production including Noreco's share of Lulita outside the DUC.

** Production figures include the acquired DUC assets from 1 August 2019.

Dan hub

Key figures	Unit	Q4 2019	Q4 2018	2019*	2018
Dan	mboepd	7,8	-	8,0	-
Kraka	mboepd	0,8	-	0,8	-
Operating efficiency		76,8 %	-	78,9 %	-

* Production figures include the acquired DUC assets from 1 August 2019.

Fourth quarter average production was 8,6 kboepd from the Dan hub. Operating efficiency (defined as delivered production compared to potential production including planned and unplanned shortfalls) for the quarter was 76,8 %, compared to 78,6% for the third quarter, mainly due to equipment maintenance. Several wells underwent planned workover and well service activities and were successfully put back on stream during the quarter. The Dan FG compressor has been successfully put back in operations after planned exhaust repair.

Gorm hub

Key figures	Unit	Q4 2019	Q4 2018	2019*	2018
Gorm	mboepd	1,7	-	2,0	-
Rolf	mboepd	0,3	-	0,4	-
Skjold	mboepd	2,5	-	2,8	-
Operating efficiency		70,5 %	-	80,5 %	-

* Production figures include the acquired DUC assets from 1 August 2019.

Fourth quarter average production was 4,6 kboepd from the Gorm hub. In December Gorm reached an operating efficiency of 96,8%, following a major maintenance campaign in November. During the campaign, maintenance of several wellheads and pipeline pigging operations were successfully executed, including improvement and repair work of the water injection system. Due to downtime related to software upgrade in November, the overall operating efficiency of the quarter decreased compared to third quarter 2019.

Halfdan hub

Key figures	Unit	Q4 2019	Q4 2018	2019*	2018
Halfdan	mboepd	18,6	-	18,5	-
Operating efficiency		88,5 %	-	86,0 %	-

* Production figures include the acquired DUC assets from 1 August 2019.

Fourth quarter average production was 18,6 kboepd. Operating efficiency was 88,5% in the quarter, an increase from 85,4% in the previous quarter. Water injection on Halfdan was temporarily suspended in connection with a planned shutdown of the Dan FG compressor, which has now been successfully put back in operation. Several wells have been stimulated and a compressor was out for scheduled wash & maintenance.

Tyra hub

Key figures	Unit	Q4 2019	Q4 2018	2019**	2018
Tyra	mboepd	-	-	2,0	-
Harald	mboepd	-	-	0,5	-
Lulita*	mboepd	-	0,1	0,1	0,1
Roar	mboepd	-	-	0,2	-
Svend	mboepd	-	-	0,0	-
Valdemar	mboepd	-	-	0,4	-
Operating efficiency	%	-	-	85%	-

* Production included Lulita share outside DUC

** Production figures include the acquired DUC assets from 1 August 2019.

The production from the Tyra hub was suspended in September 2019, with “safe state” reached in January 2020. The isolation and cleaning campaign of the existing Tyra modules to be decommissioned in 2020 is progressing in accordance with the plan, where the construction vessel Pioneering Spirit will remove the Tyra East A and Tyra West A process platforms during summer 2020. The fabrication of the new wellhead and riser modules initially performed at McDermott’s Batam yard has been subcontracted to Semcorp Marine Offshore Platforms Pte Ltd Singapore with planned delivery in 2021 and subsequent sea-transportation to the North Sea for offshore installation. The accommodation module being fabricated by Rosetti Marine SpA in Ravenna has planned delivery in 2021 and will be installed in the North Sea in the same installation campaign as the wellhead and riser modules. The process module being fabricated at McDermott’s Batam yard is scheduled for delivery in 2021. The two jackets being fabricated by Dragados Offshore S.A. in Cádiz for the process and accommodation modules respectively, are in the final completion phase of construction, with expected sail away and installation in Q2, 2020.



Source: Total E&P Denmark A/S

Health, Safety and the Environment

Noreco will conduct its business operation in full compliance with all applicable national legislation in the countries where it is operating. The Company is committed to carry out its activities in a responsible manner to protect people and the environment. The consideration of HSEQ and safe business practice is an integral part of Noreco's operations and business performance.

Governance and organization

The number of employees was 27 at the end of the fourth quarter. Strategic appointments to strengthen the management team was made in the quarter and the Company currently has a search process ongoing for a Group CEO.

Risks and uncertainties

An investment in Noreco involves risks and uncertainties as described in the Company's annual report for 2018 and the prospectus published 9 August 2019. Noreco's business, results from operations, cash flow and financial condition depends on the level of oil and gas prices and market expectations of these. Further, Noreco is dependent on successfully developing and producing oil and gas reserves that are economically recoverable. Unless the Company replaces its oil and gas reserves, its reserves and production will decline, which over time could adversely affect its business, financial condition and results of operations. Noreco is also exposed to risks such as, but not limited to, changes in exchange rates, interest rates, tax, regulations and access to capital.

Outlook

Noreco has built a stable business that is underpinned by the Company's position in the DUC. Noreco has identified a number of value additive organic DUC investment projects that the Company will seek to sanction when they have sufficiently progressed. The Company's ambition is to more than replace produced volumes with incremental 2P reserves additions over the medium-term. The Company anticipates direct field opex to decrease to USD 12 per boe once Tyra is back on stream. Following the successful shutdown of the Tyra Hub in September 2019, the Company expects the following production for the first quarter of 2020:

	Unit	Q1 2020 Guidance	Q4 2019
Production*	mboepd	31-33	31,7

* Figures do not take into account the volume guarantee.

Condensed Consolidated Statement of Comprehensive Income

Noreco Fourth Quarter
2019

All figures in USD million	Note	Q4 2019	Q4 2018	2019	2018
Revenue	2	172	1	333	2
Total revenues		172	1	333	2
Production expenses	3	(102)	(0)	(171)	(0)
Exploration and evaluation expenses	4	(0)	-	(1)	-
Personnel expenses	5	(3)	(1)	(18)	(2)
Other operating expenses	6	(8)	(16)	(19)	(18)
Total operating expenses		(114)	(17)	(209)	(21)
Operating result before depreciation and write-downs (EBITDA)		59	(15)	125	(19)
Depreciation	11	(40)	(0)	(70)	(0)
Impairment of goodwill	9, 10	12	-	(266)	-
Net operating result (EBIT)		31	(15)	(212)	(19)
Financial income	7	96	10	177	21
Financial expenses	7, 19	(80)	(7)	(150)	(19)
Net financial items		16	3	27	2
Result before tax (EBT)		47	(12)	(185)	(18)
Income tax benefit / (expense)	8	(3)	(0)	400	0
Net result for the period		44	(12)	215	(17)
Other comprehensive income (net of tax):					
Items that will not be reclassified to profit or loss:					
Changes in fair value of bond debt		-	(1)	-	(0)
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedge		(86)	-	(86)	-
Related tax		55	-	55	-
Currency translation adjustment		1	(4)	1	(21)
Total other comprehensive income for the period (net of tax)		(30)	(5)	(30)	(21)
Total comprehensive income for the period (net of tax)		14	(17)	186	(38)
Earnings per share (USD 1)					
Basic		1,8	(1,7)	8,8	(2,3)
Diluted		1,4	(0,8)	6,9	(2,3)

All figures in USD million	Note	31.12.2019	31.12.2018
Non-current assets			
Licence and capitalised exploration expenditures	9,10	30	-
Deferred tax assets	8	471	0
Property, plant and equipment	10, 11	1 701	1
Right of Use asset	19	1	-
Restricted cash	13, 16	115	67
Receivables and other non-current assets	12	17	-
Derivative instruments	16	78	-
Total non-current assets		2 414	68
Current assets			
Trade receivables and other current assets	12	237	54
Bank deposits, cash and cash equivalents	13	286	2
Total current assets		523	57
Total assets		2 937	124
Equity			
Share capital	18:	30	8
Other equity		543	(14)
Total equity		573	(6)
Non-current liabilities			
Asset retirement obligations	17	915	68
Convertible bond loan	14, 16	108	-
Bond loan	14, 16	168	-
Reserve based lending facility	14, 16	707	-
Derivative instruments	16	58	-
Other non-current liabilities	14, 19	26	-
Total non-current liabilities		1 982	68
Current liabilities			
Asset retirement obligations	17	52	(0)
Bond loan	14, 16	-	18
Other interest bearing debt	14	-	36
Tax payable	8	106	-
Derivative instruments	16	31	-
Trade payables and other current liabilities	15	193	8
Total current liabilities		382	62
Total liabilities		2 364	130
Total equity and liabilities		2 937	124

Condensed Consolidated Statement of Changes in Equity

Noreco Fourth Quarter
2019

All figures in USD million	Share capital	Share premium fund	Currency translation fund	Other equity	Total equity
2018					
Equity on 01.01.2018	8	343	58	(393)	17
Net result for the period	-	-	-	(17)	(17)
Other comprehensive income (net of tax)					
Change in fair value of bond debt	-	-	-	(0)	(0)
Currency translation adjustments	-	-	(4)	-	(4)
Other OCI items	-	-	-	-	-
Total other comprehensive income (net of tax)	-	-	(4)	(0)	(4)
Issue of shares	-	-	-	0	0
Transaction cost equity issue	-	-	-	-	-
Share-based incentive program	-	-	-	(2)	(2)
Capital reduction	-	-	-	-	-
Total transactions with owners for the period	-	-	-	(2)	(2)
Equity on 31.12.18	8	343	54	(412)	(6)
2019					
Equity on 01.01.2019	8	343	54	(412)	(6)
Impact change in functional and presentation currency	-	-	(58)	58	-
Restated Equity on 01.01.2019	8	343	(3)	(354)	(6)
Net result for the period	-	-	-	215	215
Other comprehensive income (net of tax)					
Cash flow hedge	-	-	-	(86)	(86)
Related tax	-	-	-	55	55
Currency translation adjustments	-	-	(2)	3	1
Other OCI items	-	-	-	(0)	(0)
Total other comprehensive income (net of tax)	-	-	(2)	(29)	(30)
Issue of shares	21	369	-	-	390
Transaction cost equity issue	-	(4)	-	-	(4)
Share-based incentive program	-	-	-	8	8
Capital reduction	-	-	-	-	-
Total transactions with owners for the period	21	365	-	8	393
Equity on 31.12.19	30	708	(5)	(160)	573

Condensed Consolidated Statement of Cash Flows

Noreco Fourth Quarter
2019

All figures in USD million	Note	Q4 2019	Q4 2018	2019	2018
Cash flows from operating activities					
Net result for the period		44	(12)	215	(17)
Adjustments for:					
Income tax benefit	8	3	-	(400)	(0)
Tax Refundable		-	-	-	(0)
Tax paid		(51)	-	(51)	-
Depreciation	11	40	0	70	(0)
Impairment of goodwill	9	(12)	-	266	-
Share-based payments expenses		-	-	8	1
Net financial costs	7	(16)	0	(27)	(3)
Changes in:					
Trade receivable	12	48	6	67	11
Trade payables	15	34	3	70	5
Inventories and spare parts	12	6	-	16	-
Prepayments	12	1	-	(29)	-
Over-/underlift	12	(11)	-	(7)	-
Other current balance sheet items		0	(3)	(0)	2
Net cash flow from operating activities		87	(5)	198	(2)
Cash flows from investing activities					
Acquisition of subsidiary	10	-	-	(1 071)	-
Volume guarantee	12	40	-	50	-
Locked box interest	10	(66)	-	(66)	-
Investment in oil and gas assets	11	(41)	(40)	(86)	(40)
Changes in restricted cash accounts	13	-	-	(50)	-
Net cash flow from investing activities		(67)	(40)	(1 223)	(40)
Cash flows from financing activities					
Drawdown long-term loans	14	175	-	1 078	0
Proceeds from issuance of short-term loan		-	36	-	36
Repayment short-term loans		-	-	(54)	-
Abandonment spent	17	(24)	-	(34)	-
Lease payments		(0)	-	(0)	-
Issue of new shares		-	-	390	0
Transaction costs related to financing		(10)	-	(54)	(5)
Transaction costs related to equity issue		0	-	(4)	(1)
Repurchase/(sale) own bonds		(0)	-	(0)	(1)
Interest paid		(10)	-	(15)	(1)
Change in fair value of bonds		(1)	(1)	(1)	(0)
Other financial items		1	-	3	-
Net cash flow from financing activities		131	36	1 309	29
Net change in cash and cash equivalents		151	(9)	283	(13)
Cash and cash equivalents at the beginning of the period		135	12	2	15
Cash and cash equivalents at end of the quarter		286	3	286	2

Notes

1

Accounting Principles

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

Basis for preparation

The interim condensed consolidated financial statements (the interim financial statements) for the fourth quarter 2019 comprise Norwegian Energy Company ASA (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 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 interim financial statements for the Fourth Quarter of 2019 were approved by the Board of Directors on 24 February 2020.

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 and working capital position are considered satisfactory in regards of the planned activity level for the next twelve months.

Business combinations

The Group accounts for business combinations using the acquisition method. The fair value of the acquired assets and liabilities are included in the consolidated financial statement from the date control is obtained. Goodwill is the difference between the fair value of the consideration and the net assets acquired. Contingent consideration is measured at fair value at the date of acquisition and remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. Transaction costs related to business combinations are expensed as incurred, except if related to the issue of debt not at FVPL or equity securities.

Change in functional and presentation currency

Norwegian kroner (NOK) was regarded as the functional and presentation currency of the Parent Company. As a result of a material change in the Parent Company's business following the Shell transaction the functional currency of the Parent Company was changed to US dollars (USD), this is in line with the primary economic environment in which the Group operates. The presentation currency of the Group was also changed to USD. The functional currency for the subsidiary Altinex AS was also changed to USD. Norwegian Energy Company (UK) Ltd (functional currency GBP) and Noreco DK Pipeline Aps (functional currency DKK) are the only subsidiaries of the Group with a different functional currency than USD.

The change in functional and presentation currencies in presenting the operating results and financial positions of the Group were effective from the transaction date and have been accounted for in accordance with International Accounting Standard (“IAS”) 21 The Effects of Changes in Foreign Exchange Rates.

Comparative figures have been translated to reflect the change in the Group's presentation currency. The consolidated financial statements of the Group as of 31 December 2018 are translated from NOK into USD at the relevant closing rate for each of the historical years.

Interest-bearing debt and embedded derivative in convertible bond

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

The convertible bond loan has been determined to contain embedded derivatives. These embedded derivatives have been assessed to be interdependent as the amount subjected to each derivative would be impacted by other derivatives. As a result, these embedded derivatives have been accounted as one single derivative liability at FVPL, while the loan element subsequent to initial recognition is measured at amortized cost. The bond loan which was settled in July 2019 was recognized at fair value. Fair value changes caused by market fluctuations were recognized through profit or loss while effects of changes in the liability's credit risk were recognized in other comprehensive income (OCI).

Hedge Accounting

The Group uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. Effective from 1 October 2019 the Group has elected to apply cash flow hedge accounting to these derivatives. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and from the date of start of cash flow hedge accounting. These are subsequently remeasured at fair value through other comprehensive income (OCI). Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Reference to summary of significant accounting policies

In accordance with IFRS 15 Revenue from Contracts with Customers, revenue is recognised when the customer obtains control of the hydrocarbons, which is ordinarily be at the point of delivery (lifting and sale) when title passes (sales method). The changes in over/underlift balances previously included as revenue (entitlement method) do not

represent transfer of title to the customer and are now included in production expense at cost of production in order to meet the IFRS 15 definition of revenue from contracts with customers. The Group has not had any major impact on earnings at resulting from the change from the entitlement method to the sales method.

Over/under lifting occurs when the Group has lifted and sold more or less hydrocarbons from a producing field than what the Group is entitled to at the time of lifting. See note 3 for description of accounting for over/under lifting of hydrocarbons in the balance sheet. Over lifting of hydrocarbons is presented as other current liabilities, under lifting of hydrocarbons is presented as other current assets. The value of under lifting is measured at the lower of production expenses and the estimated sales value, less estimated sales costs and the value of over lifting is measured at production expenses. Over lifting and under lifting of hydrocarbons are presented at gross value.

Over/under lift positions at the balance sheet date, are expected to be settled within 12 months from the balance sheet date. For the accounts, underlifts are treated as prepayments and overlifts are treated as accruals for incurred expenses.

These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2018, except for the change related to over-/underlift and the new IFRS 16 standard effective from 1 January 2019. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2018.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the supplementary notes described.

2

Revenue

USD million	Q4 2019	Q4 2018	2019	2018
Sale of oil	155	1	305	2
Sale of gas and NGL	15	0	26	0
Other income	2	-	2	-
Total Revenue	172	1	333	2

3

Production Expenses

USD million	Q4 2019	Q4 2018	2019	2018
Direct field opex	(45)	(0)	(80)	(0)
Tariff and transportation expenses	(23)	(0)	(35)	(0)
Production G&A	(4)	-	(12)	-
Field operating cost	(72)	(0)	(127)	(0)
In USD per boe	(24,7)		(23,1)	
<i>Adjustments for:</i>	-	-	-	-
Change in inventory position	(5)	-	(16)	-
Over/underlift of oil and NGL	11	-	7	-
Insurance & Other	(4)	-	(6)	-
Accruals/periodization	(11)	-	(6)	-
Exceptional costs	(22)	-	(23)	-
Production expenses	(102)	(0)	(171)	(0)

Production expenses for the fourth quarter directly attributable to the lifting and transportation to market of our oil and gas production is in total USD 72 million, which equates to USD 24,7 per boe produced during the period, an expected increase per boe following the shut-down of Tyra.

The transportation expense increased during the period driven by changed market terms for the cost of getting the gas to market. This is related to the shut-down of the Tyra platform.

Noreco closed the period with an underlift position of USD 11 million and also recognised a USD 5 million movement in the Company's inventory position.

Accruals of USD 6,1 million were charged during the period, reflecting the overhead charges from Total not included in the billing from the operator as of 31.12.2019. This will be billed by Total in 2020. In addition, fourth quarter 2019 production expenses include USD 4,9 million of charges that are related to the third quarter 2019.

During this period, the Company also recognised a number of exceptional expenses related to its operations in the DUC. Total, the operator of the DUC, has recently undertaken a restructuring programme to ensure an efficient

organisational structure is in place going forward, and Noreco recognised a charge related to this of USD 10,8 million during the fourth quarter of 2019. Total also wrote-off the value of certain items of inventory to reflect its net realisable value, and as a result of this Noreco recognised a charge of USD 11,3 million during the period.

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Personnel Expenses

USD million	Q4 2019	Q4 2018	2019	2018
Salaries	(2)	(1)	(6)	(1)
Social security tax	(0)	(0)	(1)	(0)
Pension costs	(0)	(0)	(0)	(0)
Costs relating to share-based payments	(0)	(1)	(10)	(1)
Other personnel expenses	(0)	(0)	(1)	(0)
Personnel expenses recharged	0	(0)	-	(0)
Total personnel expenses	(3)	(1)	(18)	(2)
Average number of employees	26	8	15	8

Share-based payment arrangements

At the extraordinary general meeting held on 8 November 2018, the general meeting replaced the Company's existing option scheme. The Board of Directors was authorized to grant options up to a total of 1 510 000 shares in the Company as part of a new incentive program. The options may be granted to the members of the Board and key personnel of the Company. After award, the options must be exercised within 5 years after which they expire. On 7 August 2019 the share option programme was amended to include all the Group's employees, at the Board's discretion.

Options were to be divided into (i) options to buy or subscribe for 715 000 shares at a strike price of NOK 240 per share, (ii) options to buy or subscribe for 170 000 shares at a strike price based on the volume weighted average price (VWAP) 30 days after completion of the acquisition of the DUC assets, and (iii) options to buy or subscribe for 625 000 shares at a strike price determined at the Board of Director's discretion with reference to the share price at the time of granting the options. The options (ii) and (iii) shall have a vesting period of 3 years from the time of award, with 1/3 vesting for each of the three years. The option (i) shall not have any vesting period. In addition to the programme above the Board is authorised to issue one option for each share purchased by any Board Member (except of Executive Chairman Riulf Rustad and Board Member Lars Purlund) up to a total of 10 000 shares for each Board Member.

The Board of Directors may also award other options, other terms for options and other kind of remuneration related to the share price of the Company. Remuneration to the Managing Director and executive management shall be evaluated and may be amended regularly by the Board of Directors to ensure that salaries and other benefits are based on the above guidelines and principles and in accordance with the purpose of the total compensation package for the Managing Director mentioned above.

On 1 August 2019, 715 000 options were awarded with a grant date fair value of USD 7,5 million (tranche 1) and 170 000 options with a grant date fair value of USD 1,9 million (tranche 2a). On 30 August 2019, 71 954 options were awarded with a grant date fair value of USD 0,5 million (tranche 2b). Tranche 1 is not subject to a vesting period and is expensed in third quarter 2019 (USD 7,5 million). Tranche 2a and 2b is subject to a 3-years vesting period where 1/3 is vested each year. In addition, USD 2,3 million was expensed in third quarter 2019 related to the previous share-based payment programme.

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Other Operating Expenses

USD million	Q4 2019	Q4 2018	2019	2018
Premises	(0)	(0)	(0)	(0)
IT expenses	(0)	(0)	(1)	(0)
Travel expenses	(0)	(0)	(0)	(0)
Office costs	(0)	(0)	(0)	(0)
Consultant fees	(6)	(15)	(14)	(17)
Other operating expenses	(2)	(0)	(4)	(0)
Total other operating expenses	(8)	(16)	(19)	(18)

7

Financial Income and Expenses

Financial Income

USD million	Q4 2019	Q4 2018	2019	2018
Value adjustment derivatives and hedging contracts	(4)	-	54	-
Value adjustment of embedded derivatives	9	-	9	-
Fair value adj - volume guarantee	80	-	80	-
Interest income	1	0	1	1
Change in fair value of bond debt	1	(1)	1	(0)
Gain on repurchase of bonds	-	-	1	-
Foreign exchange gains	10	11	31	21
Other financial income	0	-	0	0
Total financial income	96	10	177	21

Financial Expenses

USD million	Q4 2019	Q4 2018	2019	2018
Realized loss derivatives	(50)	-	(50)	-
Unrealized loss derivatives	10	-	(12)	-
Interest expense from bond loans	(7)	(1)	(13)	(3)
Interest expense from bank debt	(14)	-	(24)	-
Interest expenses current liabilities	(0)	(0)	(0)	(0)
Accretion expense related to asset retirement obligations	(9)	(0)	(15)	(0)
Loss on repurchase of bonds	0	-	(1)	(0)
Foreign exchange losses	(9)	(6)	(32)	(16)
Other financial expenses	(2)	(0)	(3)	(1)
Total financial income	(80)	(7)	(149)	(19)
Net financial items	16	3	27	2

8

Tax

USD million

Income tax	2019
Tax payable	15
Change in deferred tax/-deferred tax asset	29
Deferred tax asset previously not recognised	(444)
Income tax benefit	(400)
Foreign income tax benefit	(400)

Income tax related to other comprehensive income

Derivatives	(55)
Total income tax related to other comprehensive income	(55)

Reconciliation of nominal to actual tax rate:

	USD	%
Income (loss) before tax	(185)	
Calculated 22% tax on profit before tax	(41)	22%
Hydrocarbon tax, Denmark	10	-6%
Tax effect of:		
Recognized deferred tax on assets and liabilities previously not recognized	(58)	32%
Valuation allowances	47	-25%
Recognition of deferred tax on tax losses in Denmark	(386)	209%
Permanent differences	18	-10%
No recognition of current tax losses in Norway and UK	10	-5%
Tax expense (income)	(400)	217%

Tax payable

Tax payable relates to the Group's entities in Denmark. The amounts payable as of December 31 was:

Calculated tax payable in Denmark (Hydrocarbon tax)	106
Noreco estimates that hydrocarbon tax payable for 2019 in Denmark relation to the assets, including the period prior to closing of the Shell transaction, will total USD 216 million.	

Deferred tax and deferred tax asset

Net operating loss deductible	(810)
Fixed assets	955
Current assets	13
Liabilities	(893)
Basis of deferred tax/deferred tax asset	(736)
Net deferred tax/deferred tax asset	(471)
Deferred tax/deferred tax asset recognised	
Recognised deferred tax asset foreign	(1 090)
Recognised deferred tax foreign	619
Net deferred tax/deferred tax asset	(471)

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Intangible non-current assets and goodwill

USD million	Licence and capitalised exploration expenditures	Goodwill	Total
Acquisition costs 01.01.19	52	1	53
Acquisitions through business combination	30	266	296
Additions	-	-	-
Currency translation adjustment	1	(0)	1
Acquisition costs 31.12.19	83	267	349
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.19	(52)	(1)	(53)
Impairment	-	(266)	(266)
Currency translation adjustment	(1)	0	(1)
Accumulated depreciation and write-downs 31.12.19	(53)	(267)	(320)
Book value 31.12.19	30	-	30

Impairment of USD 266 million is related to the impairment of goodwill during 2019. Goodwill was generated as a result of the acquisition of SOGU and represent the difference between the fair value of the consideration and the net assets acquired. As a result of the goodwill impairment performed on a standalone basis and not taking into account the contribution from our existing Danish tax position, Noreco fully impaired the goodwill at the end of Q3 2019 as it would not be recovered without integration into the broader Noreco group. As the activities will be operated separately and consequently not merged into other Noreco activities, no other activities will benefit from the acquisition and consequently, no part of the goodwill shall be allocated to other parts of the Noreco group. The impairment test continues today indicate that the value is not recoverable, however during Q4 2019 a re-allocation has occurred that has resulted in the goodwill write down for Q3 2019 being adjusted by USD 12 million from USD 278 million to USD 266 million at the end of the period

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Acquisition of subsidiary

On 31 of July 2019 the Company completed the acquisition of 100% of the shares in Shell Olie- og Gasudvinding Danmark B.V. Following the acquisition Noreco has a 36,8% interest in the Danish Underground Consortium (DUC) with 11 producing fields and related infrastructure. This acquisition has transformed Noreco to become the second largest oil and gas producer in Denmark and a considerable independent exploration and production company in the North Sea.

The acquisition was financed through a seven-year USD 900 million Reserve Based Lending Facility, a share capital increase of USD 352 million, and the issuance of a convertible bond loan with the principal amount of USD 158 million, in addition the outstanding NOR10 bond loan was repaid at 101,5% of par value.

The transaction is considered to be a business combination and has been accounted for using the acquisition method of accounting as required by IFRS 3. The acquisition date for accounting and tax purposes (transfer of control) has been determined to be 31 July 2019. In the five months to 31 of December the new subsidiary contributed revenue of USD 332 million and net loss before tax of USD 139 million to the Group's result of which USD 266 million is related to impairment of Goodwill.

A. Consideration transferred

The following table summarizes the acquisition-date fair value of the total purchase price.

USD million

Initial Cash payment	40
Total Cash payment 2018	40
Cash at Completion	1 104
Volume guarantee refund until June 2019	(33)
Total Cash payment 2019	1 071
Total Cash payment	1 111
Adjustments	
Settlement of prepaid cost – reimbursed to seller	5
Deferred payment	25
Volume guarantee for July 2019	(10)
Locked Box Interest	63
Volume guarantee market value	(81)
Total Purchase price	1 114

The final consideration for the acquisition of SOGU was set in the SPA consisting of a cash payment, of which USD 25 million has been deferred until 2023 and an additional volume protection payment covering the period from signing the SPA until end of December 2020. This volume protection payment requires the seller to compensate Altinex according to a formula set in the SPA, if the actual volume is lower than a stipulated volume. Management has estimated the fair value of this volume protection payment from closing until December 2020 (being a contingent consideration comprising a receivable from the seller) to USD 81 million which has been deducted from the consideration. During the locked box period Altinex became entitled to volume protection payments of USD 33 million which similarly has been deducted from the consideration.

B. Acquisition-related costs

The Group incurred acquisition-related cost of USD 9 million in 2019 (USD 1,5 million in 2018) related to external legal fees and due diligence cost. These costs have been included in Other operating expenses in the condensed consolidated statement of comprehensive income.

C. Identifiable assets acquired and liabilities assumed

A purchase price allocation (PPA) has been performed and all identified assets and liabilities have been measured at the acquisition date at their fair values in accordance with the requirements of IFRS 3. The fair values of the identifiable assets and liabilities in the transaction at the date of the acquisition have been estimated on a provisional basis as follows:

USD million	SOGU	SOGUP	PPA
Assets			
Tangible and intangible fixed assets	1 712	2	-
Deferred tax assets	2	1	-
Financial assets at fair value	128	-	-
Inventories	31	-	-
Net working capital	99	24	-
Total Assets	2 002	27	2 029
Liabilities			
Asset retirement obligation	(918)	(1)	(919)
Trade and other payables	(118)	(0)	(118)
Tax payables	(144)	-	(144)
Total Liabilities	(1 180)	(1)	(1 181)
Total identifiable net assets at fair value			848

Fair value is based on an NPV calculation on a debt / cash free basis.

D. Goodwill

USD million	
Total consideration	1 114
Total identifiable net assets at fair value	848
Goodwill	266
Impairment	(266)
Goodwill	-

For comments related to goodwill and impairment please see note 8.

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Property, Plant and Equipment

USD million	Asset under construction	Production facilities	Pipelines	Machinery & equipment	Total
Acquisition costs 01.01.19	-	23	0	1	23
Acquisitions through business combination	300	465	1	-	766
Additions	76	10	-	0	86
Acquisition of abandonment asset through business combination	-	918	-	-	918
Currency translation adjustment	-	0	0	0	0
Acquisition costs 31.12.19	376	1 416	1	1	1 794
Accumulated depreciation and write-downs					
Accumulated depreciation and write-downs 01.01.19	-	(22)	-	(1)	(22)
Depreciation	-	(70)	(0)	(0)	(70)
Currency translation adjustment	-	(0)	(0)	(0)	(0)
Accumulated depreciation and write-downs 31.12.19	-	(92)	(0)	(1)	(93)
Book value 31.12.19	376	1 324	1	0	1 701

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Non-Current Receivables, Trade Receivables and Other Current Assets

USD million	31.12.2019	31.12.2018
Non-current assets		
Contingent consideration – volume protection	17	-
Total non-current receivables	17	-
Current assets		
Tax receivables	-	0
Contingent consideration – volume protection	104	-
Trade receivables	2	0
Inventories	36	-
Underlift of oil/NGL	-	1
Prepayments	31	2
Other receivables	63	51
Total trade receivables and other current receivables	237	54

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Restricted Cash, Bank Deposits, Cash and Cash Equivalents

USD million	31.12.2019	31.12.2018
Non-current assets		
Restricted cash pledged as security for abandonment obligation related to Nini/Cecilie ¹⁾	65	67
Restricted cash pledged as security for cash call obligations towards Total ²⁾	50	-
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	-	-
Total non-current restricted cash	115	67
Current assets		
Unrestricted cash, bank deposits, cash equivalents	286	3
Total bank deposits	401	69

- 1) Any currency exposure in the subsidiary connected with the asset retirement obligation of USD 65 million (DKK 432 million), the Group has a pledged bank account containing the same amount in DKK in the Parent company. Any currency gains and losses from this has however been recognized as financial income/expense in line with IFRS 9.
- 2) Noreco has made a USD 50 million deposit into an escrow account in accordance with a cash call security agreement with Total E&P Denmark A/S as operator of the DUC. From August 2020 until January 2021 the escrow account will increase by USD 15 million monthly, up to a total of USD 140 million.

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Borrowings

Non-Current Debt USD million	31.12.2019		31.12.2018	
	Principal amount	Book value	Principal amount	Book value
NOR 13 Convertible Bond ¹⁾	158	108	-	-
NOR 14 Senior Unsecured Bond ²⁾	175	168	-	-
Total non-current bonds	333	276	-	-
Reserve based lending facility ³⁾	746	707	-	-
Deferred Consideration ⁴⁾	25	25	-	-
Total non-current debt	771	732	-	-

Current Debt USD million	31.12.2019		31.12.2018	
	Principal amount	Book value	Principal amount	Book value
Deposit loan ⁵⁾	-	-	36	36
NOR10 ⁶⁾	-	-	18	18
Total current debt	-	-	54	54

Total borrowings	1 104	1 008	54	54
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- 1) The Company issued a convertible bond loan of USD 158 million where the lender was granted a right to convert the loan into new shares in the Company by way of set-off against the claim on the Company. The loan carries an interest of 8% p.a. on a PIK basis, with an alternative option to pay cash interest at 6% p.a., payable semi-annually.
- 2) The Company issued a senior unsecured bond of USD 175 million. The bond carries an interest of 9% p.a., payable semi-annually.
- 3) Released funds from the seven-year USD 900 million Reserve Based Lending Facility. Interest is accrued on the repayment amount with an interest comprising the aggregate of 3-month LIBOR and 4% p.a., payable quarterly.
- 4) In accordance with the SPA USD 25 million of the consideration is not due until after the redevelopment of Tyra has been concluded.
- 5) In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million in 2018 which upon closing of the transaction was rolled into the convertible bond issue at par.
- 6) The NOR10 bond loan was settled in July 2019.

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Trade Payables and Other Current Liabilities

USD million	31.12.2019	31.12.2018
Trade payable	29	3
Liabilities to operators relating to joint venture licences	76	(0)
Overlift of oil/NGL	12	(0)
Accrued interest	5	1
Salary accruals	3	2
Public duties payable	50	(0)
Other current liabilities	18	2
Total other current liabilities	193	8

The public duties payable is mainly related to outgoing VAT on hydrocarbon sales in 2019, the payment is due in March 2020.

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Financial Instruments
15.1 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 31.12.19

USD million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– Contingent considerations	-	-	121	121
– Derivative instruments	-	78	-	78
Total assets	-	78	121	199
Liabilities				
Financial liabilities at fair value through profit or loss				
– Derivative instruments	-	5	-	5
– Embedded derivatives convertible bond	-	-	45	45
Financial liabilities at fair value - OCI				
– Cash flow hedge	-	39	-	39
Total liabilities	-	44	45	89

On 31.12.2018

USD million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– Underlift of oil	-	1	-	1
Total assets	-	1	-	1
Liabilities				
Financial assets at fair value through profit or loss				
– Bond loans	-	-	18	18
Total liabilities	-	-	18	18

15.2 Financial Instruments by Category

On 31.12.19 USD million	Financial assets at amortised cost	Assets at fair value through profit or loss	Fair value - hedging instruments	Total
Assets				
Contingent considerations	-	121	-	121
Derivative instruments	-	78	-	78
Trade receivables and other current assets	102	-	-	102
Restricted cash	115	-	-	115
Bank deposits, cash and cash equivalents	286	-	-	286
Total	503	199	-	702

USD million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Fair value - hedging instruments	Total
Liabilities				
Derivative instruments and Cash flow hedge	-	5	39	44
Embedded derivative convertible bond	-	45	-	45
Convertible bond loans	108	-	-	108
Senior unsecured bond loan	168	-	-	168
Reserve based lending facility	707	-	-	707
Deferred consideration	25	-	-	25
Lease liability	1	-	-	1
Trade payables and other current liabilities	31	-	-	31
Total	1 041	50	39	1 130

On 31.12.2018 USD million	Financial assets at amortised cost	Assets at fair value through profit or loss	Fair value - hedging instruments	Total
Assets				
Trade receivables and other current assets	54	1	-	55
Restricted cash	68	-	-	68
Bank deposits, cash and cash equivalents	3	-	-	3
Total	125	1	-	126

USD million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Fair value - hedging instruments	Total
Liabilities				
Bond loan	-	19	-	19
Other interest bearing debt	37	-	-	37
Trade payables and other current liabilities	8	-	-	8
Total	44	19	-	63

15.3 Financial Instruments – Fair Values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 December 2019:

USD million	Total amount outstanding*	Carrying Amount	Fair Value
Financial assets			
Trade receivables and other current assets		102	102
Restricted cash		115	115
Bank deposits, cash, cash equivalents and quoted shares		286	286
Total		503	503
Financial liabilities			
Derivatives and Cash flow hedge		44	44
Embedded derivative convertible bond		45	45
Convertible bond loans	158	108	108
Senior unsecured bond loan	175	168	168
Reserve based lending facility	746	707	707
Deferred consideration		25	25
Lease liability		2	2
Trade payables and other current liabilities		31	31
Total	1 079	1 041	1 041

* Total amount outstanding on the bonds and under the RBL facility

The convertible bond loan has been determined to contain embedded derivatives which is accounted for separately as derivatives at fair value through profit or loss, while the loan element subsequent to initial recognition is measured at amortized cost, a total of USD 4,5 million in transaction cost is included in the amortized cost. The embedded derivative is valued on an option valuation basis, the carrying value is USD 45 million (initial value USD 54 million).

The RBL facility is measured at amortized cost, in addition a total of USD 42 million in transaction cost. Transaction costs are deducted from the amount initially recognised and are expense over the period during which the debt is outstanding under the effective interest method.

The senior unsecured bond loan is measured at amortized cost, in addition a total of USD 7,6 million in transaction cost are deducted from the amount initially recognised.

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Asset Retirement Obligations

USD million	31.12.2019	31.12.2018
Balance on 01.01.	68	72
Acquisition of abandonment liability through business combination	918	-
Provisions and change of estimates made during the year	(2)	(4)
Accretion expence - present value calculation	15	0
Incurred cost removal	(34)	-
Currency translation adjustment	0	-
Total provision made for asset retirement obligations	967	68
Break down of short-term and long-term asset retirement obligations		
Short-term	52	-
Long-term	915	68
Total provision for asset retirement obligations	967	68

As part of the overall restructuring in 2015, an agreement was reached that entails that the partners will take over Noreco's share of the Nini/Cecilie licences. The liability related to Nini/Cecilie will not exceed the restricted cash account, which is currently DKK 431 million.

The balance as per 31.12.2019 is USD 900 million for DUC, USD 65 million for Nini/Cecilie and USD 1 million for Lulita (non-DUC share).

18

Shares and Share Capital

USD million	No. of Shares	Share Capital
Number of shares and share capital 31.12.18	7 194 730	8
Change in 2019	17 354 283	21
Number of shares and share capital 31.12.19	24 549 013	30

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Right-of-Use Assets and Lease Liabilities

Recognition and Measurement Approach on Transition

The Company has elected to use the recognition exemptions in the standard for short-term leases and leases of low value items such as computers and office equipment. The Company also applied the recognition exemption for leases that expire in 2019.

The movement in the right-of-use assets and lease liabilities since implementation is summarized below.

Right of Use assets USD million	Land and buildings	Machinery and vehicles	Total
Aquisition costs 01.01.2019	-	-	-
Additions	2	0	2
Aquisition costs 31.12.19	2	0	2
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.2019	-	-	-
Depreciation	(0)	(0)	(0)
Accumulated depreciation and write-downs 31.12.19	(0)	(0)	(0)
Book value 31.12.19	1	0	1

Lease liabilities USD million	Land and buildings	Machinery and vehicles	Total
Balance on 01.01.2019	-	-	-
Additions	2	0	2
Interest expense	0	0	0
Lease payment	(0)	(0)	(0)
Total lease liability 31.12.19	1	0	1
Break down of short-term and long-term lease liability			
Short - term	1	(0)	1
Long - term	1	0	1
Total lease liability	1	0	1

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Subsequent Events

On 23 January 2020 Noreco completed the buyback of 299,925 of its own shares through a reversed book building process.

On 6 February 2020 it was announced that the nomination committee of Noreco proposed a further strengthening of Noreco's board by adding Robert J. McGuire as an additional board member, following this an extraordinary general meeting was called by the Board to be held on 2 March 2020.

Noreco may disclose alternative performance measures as part of its financial reporting as a supplement to the financial statements prepared in accordance with IFRS. Noreco believes that the alternative performance measures provide useful supplemental information to management, investors, security analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Noreco's business operations and to improve comparability between periods.

Abandonment spend (abex) is payment for removal and decommissioning of oil fields.

Adj. EBITDA is adjusted for any claims under the volume guarantee in the quarter as this reflects a payment from

Shell if the operating performance of the business is below expectations set at the time of the signing of the Acquisition. This hedge is calculated to make whole Noreco's contribution from the operations had the performance been in line with expectations and is currently reflected in the company's cashflow statement and balance sheet only.

It is also adjusted for exceptional costs in relation to the transaction that are not reflective of the underlying performance of the business, cost from share-base payment arrangements.

All figures in USD million	Q4 2019	Q4 2018	2019	2018
EBITDA	59	(15)	125	(21)
Claim volume floor guarantee	33	-	70	-
Transaction cost	2	0	9	2
Share-base payment	0	-	10	-
Exceptional DUC operating cost	22	-	22	-
Adj. EBITDA	116	(15)	236	(20)

EBITDA Earnings before interest, taxes, depreciation, depletion, amortization and impairments. EBITDA assists in comparing performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending on accounting methods or non-operating factors and provides a more complete and comprehensive analysis of our operating performance relative to other companies.

Net interest-bearing debt is defined by Noreco as cash and cash equivalents reduced by current and non-current interest-bearing debt. RBL facility and bond loan are included in the calculation with the total amount outstanding and not the amortised cost including transaction cost.

All figures in USD million	2019	2018
Cash and cash equivalents	286	2
Convertible bond loan	(158)	-
Senior Unsecured bond loan	(175)	(18)
Reserve based lending facility	(746)	-
Other non-current liabilities*	(26)	(36)
Net interest-bearing debt	(819)	(52)

* YTD 2018 is related to deposit loan

Information About Noreco

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Internet	www.noreco.com
Organisation number	NO 987 989 297 MVA

Financial Calendar 2020

25 February	Q4 2019 Report
30 April	Annual Report 2019
26 May	Annual General Meeting
20 May	Q1 2020 Report
21 August	Q2 2020 Report
13 November	Q3 2020 Report

Board of Directors

Riulf Rustad	Chair
Lars Purlund	
Marianne Lie	
Tone Kristin Omsted	
Colette Cohen	
Yves-Louis Darricarrère	
Chris Bruijnzeels	

Management

Atle Sonesen	Chief Operating Officer and Managing Director
Euan Shirlaw	Chief Financial Officer
Cathrine Torgersen	EVP, Investor Relations & Communications
Frederik Rustad	EVP, Corporate Finance & Investments

Investor Relations

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Annual Reports

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

Quarterly publications

Quarterly reports and supplementary information for investors and analysts are available on www.noreco.com. The publications can be ordered by e-mailing investorrelations@noreco.com.

News Releases

In order to receive news releases from Noreco, please register on www.noreco.com or e-mail investorrelations@noreco.com.