



**NORWEGIAN ENERGY COMPANY ASA**  
FIRST QUARTER  
2017

# REPORT FOR THE FIRST QUARTER 2017

NORWEGIAN ENERGY COMPANY ASA

## HIGHLIGHTS

- On 17 February 2017, The Danish Supreme Court declined to hear the appeal from the insurance companies/insurers on the grounds that the Siri Insurance claim case was not viewed as being principle in nature by the court.
- On 27 February 2017, the Eastern High Court in Copenhagen received an appeal from the insurers, the court has later accepted to handle the appeal.
- On 22 March 2017, it was announced that the Norwegian authorities had approved the PDO for the Dvalin field and Noreco is due payment from OMV according to agreement.

## OUTLOOK

Noreco is working to grow the companies' oil production within the two strategic areas of the UK and Danish sectors of the North Sea. This has somewhat been challenging with the insurers' continued lack of responsible behaviour towards their insurance obligations to the company (ref the 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.

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

To present the Management view on the correct value of Norwegian Energy Company ASA below tables have been prepared.

### Non-IFRS Result Norwegian Energy Company ASA 31.03.2017

#### NOK million

IFRS Result for the period after tax	12
Reversal of value adjustment of NOR10	(9)
Value adjustment subsidiaries	-
<b>Non-IFRS Result for the period</b>	<b>4</b>
Non-IFRS Equity 31.12.2016	1 477
Non-IFRS Result for the period	4
Other items	0
<b>Non-IFRS Equity 31.03.2016</b>	<b>1 481</b>

### Non-IFRS Balance sheet for Norwegian Energy Company ASA 31.03.2017

#### NOK million

<b>Non-current assets</b>	
Restricted Cash	542
Value of subsidiaries	1 601
<b>Total non-current assets</b>	<b>2 144</b>
<b>Current assets</b>	
Restricted cash	4
Bank deposits, cash and cash equivalents	39
<b>Total current assets</b>	<b>43</b>
<b>Total assets</b>	<b>2 187</b>
<b>Equity</b>	
Share capital	71
Other equity	1 410
<b>Total equity</b>	<b>1 481</b>
<b>Non-current liabilities</b>	
Bond loan	162
Guarantee provision	542
<b>Total non-current liabilities</b>	<b>704</b>
<b>Current liabilities</b>	
Trade payables and other current liabilities	3
<b>Total current liabilities</b>	<b>3</b>
<b>Total liabilities</b>	<b>706</b>
<b>Total equity and liabilities</b>	<b>2 187</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.

Above balance sheet comprises the parent company only, hence any cash in subsidiaries are included in "Value of subsidiaries"

## BUSINESS DEVELOPMENT

In August 2009 cracks were discovered in the structure of the Siri installation of which Noreco held 50%. The close-down of the production together with the significant cost related to the repair was financially challenging. Since 2009 Noreco has attempted to engage in a constructive dialogue with the insurers to pay for the damages in accordance with the insurance program. The insurers, however, were unwilling to honor their obligations, leading to Noreco filing the claims which ended up in a court case that commenced on the 12 of September 2016 in the Maritime and Commercial High Court in Copenhagen.

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; Awhilhelmsen 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 Danish Supreme Court 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, not being principle in nature and not detrimental to the Danish society. The Eastern High Court in Copenhagen, being at the same level as the Danish Maritime and Commercial High Court, received an appeal from the insurers late February. The court has agreed to handle the appeal as per general appeal rules in Denmark, giving the right to have your case heard in two court instances.

Noreco is confident in the case and its established strong merits from the court ruling of December 2016. Noreco is no longer in a distressed situation and together with its strong partners, Awhilhelmsen and QVT Noreco is prepared to defend its position irrespective of how long it will take. A ruling is expected within 2 years.

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.

Noreco Norway has filed for early tax assessment and will, once finalized, dissolve the company and settle NOR06 in accordance with the approved bondholder proposal of 16 March 2016.

## GROUP FINANCIALS

The Noreco group had **revenues from continued operations** of NOK 0.2 million in the first quarter 2017 relating to revenue from Lulita compared to NOK 2 million in the first quarter 2016 and NOK 11 million for the year 2016. Lulita didn't produce in the two first months of 2017.

**Production expenses from continued operations** amounted to NOK 0.5 million in the first quarter of 2017. In the same quarter of 2016 the production expenses from continued operations amounted to NOK 0.6 million and NOK 5 million for the year.

**Personnel expenses** in first quarter was NOK 4 million. Cost for the same quarter in 2016 was NOK 9 million compared to NOK 20 million for the year 2016.

**Other operating expenses from continued operations** were a cost of NOK 10 million for the first quarter compared to NOK 9 million for the same quarter in 2016. 2017 is 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 first quarter 2017 was a loss of NOK 14 million, compared to a loss of NOK 16 million in the same quarter 2016. For the year 2016 Noreco EBITDA amounted to a loss of NOK 23 million.

**Net Financial items from continued operations** amounted to a cost of NOK 23 million for the first quarter of 2017, compared to a cost of NOK 17 million in the first quarter of 2016, and NOK 56 million for the full year. The effect in the first quarter of 2017 is mainly due to currency translation, interest and change in fair value of bonds.

**Taxes from continued operations** amounted to an income of NOK 12 million for the first quarter compared to NOK 65 million for the year 2016. The amount is impacted by fair value measurement of the bond loans and the Dvalin success payment. Taxable income is also 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 a gain of NOK 110 million compared to a gain of NOK 43 million for the same period in 2016. The main reason for the income this quarter is the settlement of the Dvalin payment. For the year 2016 profit from discontinued operation amounted to NOK 304 million.

**Net result** for the first quarter of 2017 is a profit of NOK 84 million, compared to a profit of NOK 21 million for the same quarter in 2016 and a profit of NOK 290 million for the year of 2016.

**Non-current restricted cash** amounts to NOK 584 million mainly relating to the balance of an escrow account of DKK 445 million plus 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 DKK 445 million adjusted for accrued 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 507 million, related to the Siri-insurance claim. The court ruling was published in December 2016 with a very strong conclusion.

**Equity** amounted to NOK 523 million at the end of the period, compared to NOK 437 million at the end of 2016.

**Asset retirement obligations** amounted to NOK 558 million at the end of the quarter compared to NOK 563 million at the end of 2016.

**Interest-bearing debt**, had a book value of NOK 563 million (principal amount NOK 651 million) at the end of first 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 bonds were valued at 84% (NOR06) and 95% (NOR10) of principal amount.

## RISKS AND UNCERTAINTIES

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

## GOVERNANCE AND ORGANISATION

An extraordinary general meeting in Norwegian Energy Company ASA was held 8 March 2017. The general meeting approved an expanded option scheme for key personnel, including Directors of the Board, as well as extending the maturity of the option scheme approved in January 2016. It was also approved that the Board of Directors is authorized to acquire treasury shares, and an authorization was also given to increase the Company's share capital by subscription of new shares. Both authorizations can only be used for fulfilment of the Company's option scheme, to strengthen the Company's equity or for funding of business opportunities.

At the start of 2017 the company had 6 employees. At the end of the quarter, the number of employees had increased to 7.

# STATEMENT OF COMPREHENSIVE INCOME

## CONSOLIDATED

All figures in NOK million	Note	Q1 2017	Q1 2016	2016
<b>Continued operations</b>				
Revenue	3	(0)	2	11
<b>Total revenues</b>		<b>(0)</b>	<b>2</b>	<b>11</b>
Production expenses	4	(0)	(1)	(5)
Exploration and evaluation expenses	5	-	(0)	(0)
Personnel expenses	6	(4)	(9)	(20)
Other operating expenses	7	(10)	(9)	(11)
Other (losses) / gains	8	-	1	1
<b>Total operating expenses</b>		<b>(14)</b>	<b>(19)</b>	<b>(35)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>		<b>(14)</b>	<b>(16)</b>	<b>(23)</b>
Depreciation	12	(0)	(0)	(1)
<b>Net operating result (EBIT)</b>		<b>(15)</b>	<b>(17)</b>	<b>(24)</b>
Financial income	9	26	10	82
Financial expenses	9	(48)	(27)	(138)
<b>Net financial items</b>		<b>(23)</b>	<b>(17)</b>	<b>(56)</b>
<b>Result before tax (EBT)</b>		<b>(37)</b>	<b>(33)</b>	<b>(80)</b>
Income tax benefit / (expense)	10	12	11	65
<b>Net result for the period continued operation</b>		<b>(26)</b>	<b>(22)</b>	<b>(15)</b>
<b>Discontinued operation</b>				
Profit (loss) from discontinued operation (net of income tax)	2	110	43	304
<b>Net result for the period</b>		<b>84</b>	<b>21</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>				
Reclassification of currency translation adjustment upon disposal of subsidiary		-	-	-
Currency translation adjustment		11	(16)	(3)
<b>Total other comprehensive income for the period (net of tax)</b>		<b>11</b>	<b>(16)</b>	<b>(3)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>95</b>	<b>5</b>	<b>286</b>
Earnings per share (NOK 1)				
Basic	19	12	3	41
Diluted	19	11	3	40
Earnings per share continuing operation (NOK 1)				
Basic	19	(4)	(3)	(2)
Diluted	19	(3)	(3)	(2)

# STATEMENT OF FINANCIAL POSITION

## CONSOLIDATED

NOK million	Note	31.03.17	31.12.16
<b>Non-current assets</b>			
Deferred tax assets	10	10	9
Property, plant and equipment	12	12	12
Restricted cash	14,17	584	591
Receivables	13	507	510
<b>Total non-current assets</b>		<b>1 113</b>	<b>1 122</b>
<b>Current assets</b>			
Tax refund	10	397	397
Trade receivables and other current assets	13,17	113	8
Restricted cash	14,17	4	4
Bank deposits, cash and cash equivalents	14,17	74	89
<b>Total current assets</b>		<b>588</b>	<b>498</b>
<b>Total assets</b>		<b>1 702</b>	<b>1 620</b>
<b>Equity</b>			
Share capital	19	71	71
Other equity		452	366
<b>Total equity</b>		<b>523</b>	<b>437</b>
<b>Non-current liabilities</b>			
Deferred tax	10	12	23
Asset retirement obligations	18	558	563
Bond loan	15,17	152	153
Other interest bearing debt	15,17	1	0
<b>Total non-current liabilities</b>		<b>724</b>	<b>739</b>
<b>Current liabilities</b>			
Bond loan		411	377
Trade payables and other current liabilities	16,17	44	67
<b>Total current liabilities</b>		<b>44</b>	<b>67</b>
<b>Total liabilities</b>		<b>1 179</b>	<b>1 183</b>
<b>Total equity and liabilities</b>		<b>1 702</b>	<b>1 620</b>

# STATEMENT OF CHANGES IN EQUITY

## CONSOLIDATED

NOK million	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		-	21	21
Other comprehensive income for the period (net of tax)				
Currency translation adjustments	-	(16)	-	(16)
<b>Total comprehensive income for the period (net of tax)</b>	-	(16)	21	5
<b>Transactions with owners</b>				
Proceeds from share issued	0	-	0	0
Share-based incentive program	-	-	7	7
<b>Total transactions with owners for the period</b>	0	-	7	7
Equity on 31.03.2016	71	449	(364)	155
<b>2017</b>				
Equity on 01.01.2017	71	462	(96)	437
Net result for the period		-	84	84
Other comprehensive income for the period (net of tax)				
Currency translation adjustments	-	-	-	-
<b>Total other comprehensive income for the period (net of tax)</b>	-	-	84	84
<b>Transactions with owners</b>				
Proceeds from share issued	-	-	-	-
Share-based incentive program	-	-	1	1
<b>Total transactions with owners for the period</b>	-	-	1	1
Equity on 31.03.2017	71	462	(10)	523



# STATEMENT OF CASH FLOWS

## CONSOLIDATED

NOK million	Q1 2017	Q1 2016
Net result for the period	84	21
Income tax benefit	12	(21)
<i>Adjustments to reconcile net result before tax to net cash flows from operating activities:</i>		
Share-based payments expenses	1	7
(Gain) / loss on sale of licences		(44)
Change in fair value of bonds	9	(3)
Unrealised loss / (gain) related to financial instruments		(1)
Effect of changes in exchange rates		(3)
Accretion expense related to asset retirement obligations	(5)	0
<i>Changes in working capital</i>		
Changes in trade receivable	(112)	(0)
Changes in trade payables	(23)	0
Changes in other current balance sheet items	(3)	172
<b>Net cash flow from operations</b>	<b>(35)</b>	<b>129</b>
<b>Cash flows from investing activities</b>		
Net cash outflow from divestment of assets		(20)
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>(20)</b>
<b>Cash flows from financing activities</b>		
PIK Interest	20	
Repayment of bonds	-	(323)
Repayment of exploration facility	-	(3)
Interest paid	-	(21)
<b>Net cash flow from (used) in financing activities</b>	<b>20</b>	<b>(347)</b>
<b>Net change in cash and cash equivalents</b>	<b>(15)</b>	<b>(238)</b>
Cash and cash equivalents at the beginning of the period	89	452
<b>Cash and cash equivalents at end of the quarter</b>	<b>74</b>	<b>215</b>

# NOTES

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## 1 Accounting principles

Norwegian 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.

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 listed on the Oslo Stock Exchange.

### **Basis for preparation**

The interim condensed consolidated financial statements (the interim financial statements) for the first quarter 2017 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 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 as of Q1 2017.

The interim financial statements for the first quarter of 2017 were authorised for issue by the Board of Directors on 23 May 2017.

### **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 March 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 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 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 entails re-payment of bonds whenever the cash flow allows it, and secure a return of investment to the shareholders. In 2016 an agreement was entered into by Norecos fully owned subsidiary Noreco Norway AS and Det norske oljeselskap ASA (Detnor). The transaction with Detnor received the necessary approvals from the Ministry of Petroleum and Energy and the Ministry of Finance at the end of second quarter, and the deal was consequently completed at the end of second quarter 2016. The effective date of the transaction is 1 January 2016. The completion of the transaction constitute a ceasing of all of Noreco Norway's petroleum activities, and Noreco has initiated the process of claiming "Exit-refund" in 2017. At the end of the first quarter the company only has a 10% interest in a Danish oil field (Lulita) to maintain hydrocarbon tax position in order to protect the main asset in Denmark. According to IFRS 5 the company is required to present its E&P business as discontinued to ensure that the accounts reflect its current operation.

Following the Detnor-transaction, Noreco has a 10% share in the oil field Lulita, an insurance claim related to damages suffered related to the Siri platform, the tax balances and the bond loans NOR06 and NOR10.

(NOK million)	Q1 2017	Q1 2016
<b>Revenue</b>	-	(0)
Exploration and evaluation expenses <sup>(1)</sup>	(1)	(5)
Payroll expenses	(0)	(8)
Other operating expenses	(1)	(6)
Other (losses) / gains <sup>(2)</sup>	112	44
<b>Total operating expenses</b>	<b>110</b>	<b>25</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	<b>110</b>	<b>25</b>
<b>Net operating result (EBIT)</b>	<b>110</b>	<b>25</b>
Financial income	0	(2)
Financial expenses	-	10
<b>Net financial items</b>	<b>0</b>	<b>8</b>
<b>Result before tax (EBT)</b>	<b>110</b>	<b>34</b>
Income tax benefit / (expense)		10
<b>Net result for the period</b>	<b>110</b>	<b>44</b>

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

2) The Dvalin success payment

### 3 Revenue

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Sale of oil		(0)	2
Sale of gas and NGL		0	1
<b>Total revenue continued operations</b>		<b>(0)</b>	<b>2</b>
<b>Total revenue discontinued operations</b>	<b>2</b>	<b>0</b>	<b>(0)</b>
<b>Total revenue</b>		<b>(0)</b>	<b>2</b>

### 4 Production expenses

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Lulita		(0)	(1)
<b>Total production expenses continued operations</b>		<b>(0)</b>	<b>(1)</b>
<b>Total production expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Total production expenses</b>		<b>(0)</b>	<b>(1)</b>

### 5 Exploration and evaluation expenses

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Other exploration and evaluation costs		-	(0)
<b>Total exploration and evaluation costs continued operations</b>		<b>-</b>	<b>(0)</b>
<b>Total exploration and evaluation costs discontinued operations</b>	<b>2</b>	<b>(1)</b>	<b>(5)</b>
<b>Total exploration and evaluation costs</b>		<b>(1)</b>	<b>(5)</b>

## 6 Payroll expenses

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Salaries		(3)	(2)
Social security tax		(0)	(0)
Pensions costs		(0)	(0)
Costs relating to share-based payments		(1)	(7)
Other personnel expenses		(0)	(0)
<b>Total personnel expenses continued operations</b>		<b>(4)</b>	<b>(9)</b>
<b>Total personnel expenses discontinued operations</b>	<b>2</b>	<b>(0)</b>	<b>(8)</b>
<b>Total personnel expenses</b>		<b>(4)</b>	<b>(17)</b>
Average number of employees, continued operations		7	6
Average number of employees, discontinued operations		-	35
Average number of employees		7	41

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.

## 7 Other operating expenses

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Premises		(0)	(0)
IT expenses		(0)	(0)
Travel expenses		(0)	(0)
Office cost		(0)	(0)
Consultant fees		(6)	(8)
Other operating expenses		(3)	(0)
<b>Total other operating expenses continued operations</b>		<b>(10)</b>	<b>(9)</b>
<b>Total other operating expenses discontinued operations</b>	<b>2</b>	<b>(1)</b>	<b>(6)</b>
<b>Total other operating expenses</b>		<b>(11)</b>	<b>(14)</b>

## 8 Other (losses) / gains

(NOK million)	Note	Q4 2016	Q4 2015
<b>Continued operations</b>			
Change in value, other derivatives		-	1
<b>Total other (losses)/gains continued operations</b>		<b>-</b>	<b>1</b>
<b>Total other (losses)/gains discontinued operations</b>	<b>2</b>	<b>112</b>	<b>44</b>
<b>Total other (losses) / gains</b>		<b>112</b>	<b>44</b>

## 9 Financial income and expenses

### Financial income

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Interest income		0	-
Change in fair value of bond debt		0	3
Currency translation income		26	7
Other financial income		0	0
<b>Total financial income continued operations</b>		<b>26</b>	<b>10</b>
<b>Total financial income discontinued operations</b>	<b>2</b>	<b>0</b>	<b>(2)</b>
<b>Total financial income</b>		<b>26</b>	<b>8</b>

### Financial expenses

(NOK million)	Note	Q1 2017	Q1 2016
<b>Continued operations</b>			
Interest expense from bond loans		(10)	(13)
Interest expenses current liabilities		(0)	(0)
Accretion expense related to asset retirement obligations		(0)	(0)
Change in fair value of bond debt		(9)	0
Currency translation expense		(25)	(1)
Other financial expenses		(3)	(13)
<b>Total financial expenses continued operations</b>		<b>(48)</b>	<b>(27)</b>
<b>Total financial expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>10</b>
<b>Total financial expenses</b>		<b>(48)</b>	<b>(17)</b>
<b>Net financial items continued operation</b>		<b>(23)</b>	<b>(17)</b>
<b>Net financial items discontinued operation</b>	<b>2</b>	<b>0</b>	<b>8</b>
<b>Net financial items</b>		<b>(22)</b>	<b>(8)</b>

# 10 Tax

## Income tax

(NOK million)	Q1 2017	Q1 2016
Income (loss) before tax	73	-
Income tax benefit / (expense)	12	21
Equivalent to a tax rate of	(16.2 %)	0.0 %

The effective tax rate for the quarter was approximately 28 per cent compared to a tax rate of 13 per cent for the same period last year. Noreco operates in three countries and six 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. This quarter is highly influenced by bond loans measured at fair value and the Dvalin payment.

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 refund is an amount related to Noreco Norway which consist of a net amount of approximately NOK 397 million, which includes an Exit refund of approximately NOK 389 million and NOK 8 million in other refund. In addition a deferred tax liability of approximately NOK 18 million related to the fair value measurement of the NOR06 bond is recognised.

Tax loss carry forward 31.03.17 (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	510	-	516	28
<i>Denmark (offshore 39% / onshore 25%)</i>				
Noreco Denmark A/S	-	-	-	-
Noreco Oil Denmark A/S	307	4 720	-	-
Noreco Petroleum Denmark A/S	14	763	-	-
<i>UK (offshore 20% / onshore 30%)</i>				
Norwegian Energy Company (UK) Ltd.	-	679	-	679
Noreco Oil (UK) Ltd.	-	820	-	639
<b>Total tax loss carry forward</b>	<b>831</b>	<b>6 982</b>	<b>516</b>	<b>1 995</b>

The onshore tax loss carry forwards in Noreco Norway AS is subject to the Norwegian Petroleum Taxation Act §3c.

Tax loss carry forwards in the Danish offshore tax regime of NOK 5 483 million has been calculated according to Chapter 3A in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Current forecasts also indicate that the remaining tax loss carry forwards will not be utilised.

## Tax refund - Exploartion activity

(NOK million)	31.03.17	31.12.16
<b>Current assets</b>		
Exit Refund 2016	389	389
Tax refund related to Norwegian exploration activity in 2016	8	8
<b>Total tax refund</b>	<b>397</b>	<b>397</b>

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.

In January 2016 the 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 Intangible non-current assets

(NOK million)	Licence and capitalised exploration expenditures	Goodwill	Total
Acquisition costs 01.01.17	(0)	7	7
Disposals	-	0	0
Reclassified from assets held for sale in Q1 2017	-	(0)	(0)
Currency translation adjustment	-	(0)	(0)
<b>Acquisition costs 31.03.17</b>	<b>(0)</b>	<b>7</b>	<b>7</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.17		(7)	(7)
Write-downs		-	-
Disposals		(0)	(0)
Reclassified from assets held for sale in Q1 2017		0	0
Currency translation adjustment		0	0
<b>Accumulated depreciation and write-downs 31.03.17</b>		<b>(7)</b>	<b>(7)</b>
<b>Book value 31.03.17</b>	<b>(0)</b>	<b>(0)</b>	<b>-</b>

## 12 Property, plant and equipment

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.17	(62)	6	(57)
Additions	-	0	0
Disposals	-	-	-
Reclassified from assets held for sale in Q1 2016	-	-	-
Currency translation adjustment	(1)	(0)	(1)
<b>Acquisition costs 31.03.17</b>	<b>(63)</b>	<b>6</b>	<b>(57)</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.17	74	(6)	69
Depreciation	(1)	(0)	(1)
Disposals	-	-	-
Write-downs	-	-	-
Reclassified from assets held for sale in Q1 2016	-	-	-
Currency translation adjustment	1	0	1
<b>Accumulated depreciation and write-downs 31.03.17</b>	<b>74</b>	<b>(6)</b>	<b>68</b>
<b>Book value 31.03.17</b>	<b>12</b>	<b>0</b>	<b>12</b>



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

(NOK million)	31.03.2017	31.12.2016
<b>Non-current assets</b>		
Other receivables <sup>(1)</sup>	507	531
<b>Total non-current receivables</b>	<b>507</b>	<b>531</b>
<b>Current assets</b>		
Trade receivables	113	6
Receivables from operators relating to joint venture licences	0	(13)
Underlift of oil/NGL	(1)	1
Prepayments	(0)	(3)
Other receivables <sup>(1)</sup>	0	(12)
<b>Total trade receivables and other current receivables</b>	<b>113</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; Awhilhelmsen 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 1.8 billion less tax. As of 31 of December 2016 only 510 MNOK is presented in the balance sheet. On 12 January 2017 it was announced that the Supreme Court in Copenhagen received an appeal from the counterparty in relation to the SIRI Insurance Claims court case, the appeal was dismissed by the Supreme Court on 17 February 2017. On 27 February 2017, following the dismissal of the first appeal, 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.

Noreco is no longer in a distressed situation and together with its strong partners, Awhilhelmsen and QVT are prepared to defend its position irrespective of how long it will take.

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.

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

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

(NOK million)	31.03.2017	31.12.2016
<b>Non-current assets</b>		
Restricted cash pledged as security for abandonment obligation in Denmark, DKK 445 million plus interest (see note 19)	584	591
Other restricted cash and bank deposits	-	-
<b>Total non-current restricted cash</b>	<b>584</b>	<b>591</b>
<b>Current assets</b>		
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	4	4
<b>Total current restricted cash</b>	<b>4</b>	<b>4</b>
Unrestricted cash, bank deposits, cash equivalents and quoted shares	74	89
<b>Total bank deposits</b>	<b>662</b>	<b>684</b>

### Restricted cash

Not included in above is a deposit to the benefit of Noreco made by Awhilhelmsen Special Opportunities AS and QVT Financial LP in relation to an agreed secured minimum payment of USD 15 mill on the Siri-claim.

- 1) Any currency exposure in the subsidiary connected with the ARO of DKK 445 mill, has been hedged in the group accounts by a pledged bank account for the containing the same amount in DKK in the parent company. Any currency gains or losses from this has been recognized as other comprehensive income.

# 15 Borrowings

## 15.1 Principal amounts and book values

Non-current debt (NOK million)	31.03.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
NOR10 bond loan, amended and restated	162	153	156	153
<b>Total non-current bonds</b>	<b>162</b>	<b>153</b>	<b>156</b>	<b>153</b>

Current debt (NOK million)	31.03.2017		31.12.2016	
	Principal amount	Book value	Principal amount	Book value
Amended and restated NOR06	489	411	474	377
<b>Total current bonds</b>	<b>489</b>	<b>411</b>	<b>474</b>	<b>377</b>
<b>Total borrowings</b>	<b>651</b>	<b>563</b>	<b>630</b>	<b>530</b>

## 15.2 Subsequent measurement and events in first 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. During first quarter 2017 Noreco, in accordance with the approved bondholder proposal, PIKed interest on NOR06 of approximately NOK 15 million. In addition Noreco also PIKed the interest on NOR10 of approximately NOK 5 million. 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 first quarter 2017:

Amended and restated NOR06	84 %
Amended and restated NOR10	95 %

It is assumed that the change in fair value in the first quarter in it's entirely is attributable to change in own credit risk.

# 16 Trade payables and other current liabilities

(NOK million)	31.03.17	31.12.16
<b>Trade payable</b>	<b>(0)</b>	<b>7</b>
Liabilities to operators relating to joint venture licences	24	23
Overlift of oil/NGL	(0)	(0)
Accrued interest	4	14
Salary accruals	1	0
Public duties payable	(1)	0
Other current liabilities	17	22
<b>Total other current liabilities</b>	<b>74</b>	<b>67</b>

# 17 Financial instruments

## 17.1 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
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Quoted shares	0			0
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			563	563
<b>Total liabilities</b>	<b>-</b>	<b>(0)</b>	<b>563</b>	<b>563</b>

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		1		1
<b>Total assets</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Bond loans			530	530
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>530</b>	<b>530</b>

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

Due to low volumes being traded Noreco has used valuation techniques in order to estimate the fair value on the NOR10 og NOR06 bond loan. The fair value of the NOR06 is based on the estimated repayment when Noreco receives the EXIT refund from the Norwegian tax authorities of expectedly NOK 389 million and the Dvalin payment of NOK 34 million.

## 17.2 Financial instruments by category

On 31.03.2017

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	113		113
Restricted cash	588		588
Bank deposits, cash, cash equivalents and quoted shares	74	0	74
<b>Total</b>	<b>775</b>	<b>0</b>	<b>775</b>

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds		563	563
Other interest bearing debt	1		1
Trade payables and other current liabilities	74	(0)	74
<b>Total</b>	<b>75</b>	<b>563</b>	<b>638</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>68</b>	<b>530</b>	<b>597</b>

## 17.3 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
<b>Financial assets:</b>		
Trade receivables and other current assets	113	113
Restricted cash	588	588
Bank deposits, cash, cash equivalents and quoted shares	74	74
<b>Total</b>	<b>775</b>	<b>775</b>
<b>Financial liabilities:</b>		
Bond loans	563	563
Other interest bearing debt	1	1
Trade payables and other current liabilities	74	74
<b>Total</b>	<b>639</b>	<b>639</b>

## 18 Asset retirement obligations

(NOK million)	31.03.17	31.12.16
Balance on 1.1.	563	837
Provisions and change of estimates made during the year	(2)	(35)
Accretion expense	0	0
Reclassified to liabilities held for sale in Q1 2016	-	12
Reversed provision from disposal of assets	-	(256)
Currency translation	(3)	5
<b>Total provision made for asset retirement obligations</b>	<b>558</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 DKK 445 million plus 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 of DKK 445 million plus interest. 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.

Hence, the balance as per 31.03.2017 is NOK 543 million for Nini/Cecilie and NOK 15 million for Lulita.

## 19 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>		
Number of shares and share capital 31 March 2017	7 094 730	71

## 20 Subsequent events

On the 7. April 2017 Noreco Norway received approx. NOK 112 million from OMV in relations to the Dvalin success payment, 30% was paid to NOR06 bondholders according to the amended bond agreement.

On 11. April 2017 the Board granted 80.000 options under the new options scheme approved at an extraordinary general meeting on 8 March 2017, Lars Purlund was allocated 70.000 of the options and Riulf Frederik Rustad was allocated 10.000 options.

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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

### Board of Directors Noreco

Riulf Rustad            Chair

Lars Purlund

Marianne Lie

John Madden

Tone Kristin Omsted

### Noreco management

Silje Augustson        CEO

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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).

The publications can be ordered by sending an e-mail to [investorrelations@noreco.com](mailto:investorrelations@noreco.com).

### News releases

In order to receive news releases from Noreco, please register on [www.noreco.com](http://www.noreco.com) or send an email to

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