NORECO

Norwegian Energy Company ASA
Annual Report 2018

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Content

Noreco Board of Directors

Riulf Rustad

Riulf Rustad is a Norwegian businessman with a long track record from investments in sectors such as oil & gas, oil services and offshore. Mr. Rustad operates through his platform Ousdal AS and holds/has held various board positions, both in listed and unlisted companies. Mr. Rustad was elected as Chairman of the board of directors of Noreco in 2016, and is currently elected until the ordinary general meeting in 2020.

Lars Purlund

Purlund is a Danish citizen residing in Denmark. He has extensive experience with corporate restructurings and leveraged finance and nearly 30 years of investment and portfolio management experience across Northern Europe, Asia and the US. Mr. Purlund was elected to the board by the shareholders after the restructuring, and has served as a member of the board of directors of Noreco since 26 May 2016, and is currently elected until the ordinary general meeting in 2020.

Marianne Lie

Lie is a consultant at Fajoma Consulting AS. She holds various board positions including Arendal Fossekompani ASA, and Wilh. Wilhemsen ASA. She has previously held various board positions including DNB ASA, R.S. Platou, Rainpower ASA, Fortum Corporation, and Telenor ASA. Lie has served as a member of the board of directors in Noreco since 26 May 2016, and is currently elected until the ordinary general meeting in 2020.

Tone Kristin Omsted

Omsted holds a BA Hons. in Finance from University of Strathclyde. She has broad experience from corporate finance and capital markets and currently serves as head of investor relations at Entra ASA. Previous experience includes 14 years as an investment banking executive at SEB Enskilda. She has also served on the board of directors of Panoro Energy ASA. Omsted has served as member of the board of directors of Noreco since 26 May 2016, and is currently elected until the ordinary general meeting in 2020.

John P. Madden

Madden holds a BA in Political Economy from Williams College. He is currently Senior Managing Director of Kaupthing and is member of the Executive Committee of Kaupthing. He has previously worked with Lehman Brothers, Inc. and the Arcapita group. Madden has served as member of the board of directors of Noreco since 26 May 2016, and is currently elected until the ordinary general meeting in 2020.

Directors Report

Norwegian Energy Company ASA ("Noreco" or the "Company") is a Norwegian company listed on the Oslo Stock Exchange. The Company was established in 2005 focusing on exploration and production of hydrocarbon resources on the Norwegian, Danish and United Kingdom continental shelves.

In October 2018, Noreco announced the acquisition of Shell´s Danish upstream assets (the "Transaction") through the acquisition of Shell Olie- og Gasudvinding Danmark B.V. ("SOGU"). Through the transaction Noreco becomes the second largest oil and gas producer in Denmark and a considerable E&P company.

Noreco will post-completion have a 36.8% non-operated interest in the Danish Underground Consortium ("DUC") with assets that comprise 15 fields in four producing hubs; Halfdan, Tyra, Gorm and Dan. DUC is a joint venture between Total (43.2%), Shell (36.8%) and Nordsøfonden (20.0%). DUC is operated by Total which has extensive offshore experience in the region and worldwide.

On 30 November 2018, it was announced that no party relevant to the JOA had invoked their option rights to purchase Shell's SOGU interests.

On 29 April 2019, the Danish Energy Agency granted its approval for the Transaction, Noreco is working towards completion of the Transaction by the end of May 2019.

Business development

As part of the Transaction with Shell, Noreco will increase its reserves and production base significantly. Included in the Transaction are proven and probable (2P) reserves of 209 million barrels of oil equivalent (mmboe) as per beginning of 2018, of which 65% are liquids.

Noreco estimates significant reserves and production growth coming from existing resources (discoveries, EOR, initiatives & new projects). Shell's share of production from DUC in 2018 was 57 thousand barrels of oil equivalent per day (mboepd)*. Noreco expects to maintain strong production in the years to come and will continue to evaluate strategic opportunities.

In October 2018 the Danish Appeals Permission Board declined to submit Noreco's appeal to the Supreme Court related to the Siri Insurance Claims. As a result the ruling from the Eastern High Court was upheld and Noreco was awarded USD 12,5 million plus additional interest. Adjusted for accrued litigation fees from pursuing the claim as well as court ordered legal fees Noreco received in excess of USD 6 million.

Capital structure

In 2018, as part of the transaction process to acquire SOGU, new financing and capital structure has been agreed. Noreco will issue new ordinary shares through a USD 352 million private placement and USD 40 million through a partially underwritten subsequent offering in addition to raising additional capital through a new seven-year Reserve Based Lending Facility of up to USD 900 million with a sub-limit of USD 100 million for letters of credit, by the issuance of a convertible bond of up to USD 160 million. In order to fund part of the initial payment to Shell made in 2018, Noreco entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction will be rolled into the convertible bond issue at par.

The convertible bond, private placement, and short-term funding loan will be directed towards and subscribed by Noreco's largest shareholders CQS (UK) LLP, Kite Lake Capital Management (UK) LLP, Taconic Capital Advisors UK LLP, and by funds managed or advised by York Capital Management Europe (UK) Advisors LLP. For further information please see www.noreco.com.

The maturity of the NOR10 bond loan was on 1 November 2018 extended until 6 November 2019. The Company intends to settle the bond upon closing of the transaction with Shell. Noreco has during 2018 made the following payments to NOR10 bondholders:

On 23 February 2018 the Company announced that it had bought back a principal amount of NOK 6.139.515 at par, following a voluntary offer to all bondholders.

On 6 March 2018 NOK 5,3 million in interest was settled in cash. On 6 September 2018 NOK 8,1 million in interest was settled via payment-in-kind (PIK). Outstanding principal amount at the end of 2018 was NOK 159,7 million.

Group financial results for 2018

Due to the disposal of the remaining hydrocarbon activities in Norway in 2017, the accounts are presented with continued and discontinued operations.

*Source: Danish Energy Agency

Total revenues for 2018 amounted to NOK 16 million, increased from NOK 10 million the previous year for continued operations. A reallocation of the oil production from Lulita in 2017 was made in the last quarter of 2018 increasing the revenue for the year.

Production expenses for continued operations ended with an expense of NOK 3 million due to lower production in Lulita. In 2017 the production expense was NOK 386 million due to expensing of the Siri Insurance Claims after the Eastern High Court on 4 May 2018 reversed previously accrued and expensed production costs.

Personnel expenses for continued operations were NOK 19 million in 2018, decreased by NOK 10 million compared to 2017. The share-based payment costs of 2017 were affected by the option program with no vesting period. The board of directors allocation of 80.000 new share options in the second part of 2017, had a a cost related to share base payment of approximately NOK 11 million. This is partly a result of high volatility in the share price. It was approved by the general meeting on 8 November 2018 that the company's existing option scheme , as approved by the general meeting on 21 January 2016 and subsequently extended on 8 March 2017, shall discontinue. Existing options in-the-money on 15 October 2018 shall be settled by cash payment from the Company to the option holder in an amount of NOK 198 per option. All existing options out-of-the-money on 15 October 2018 shall be canceled without any further payment from the Company to the option holder. During the year 2017 former CEO Silje Augustson exercised 100,000 of her share options resulting in high social security cost in 2017.

Other operating expenses for continued operations amounted to NOK 156 million in 2018, compared to NOK 33 million last year. The operating expenses are influenced by consulting fees mainly in relation to new business opportunities and accrued litigation fees from pursuing the Siri Insurance claim as well as court order legal fees.

The **net operating result** for continued operations for 2018 was a loss of NOK 163 million, , mainly due to litigation and legal fees of the Siri Insurance case, compared to a loss of NOK 440 million in 2017. This was mainly due to expensing of the Siri Incurance Claim after the verdict from Eastern High Court on 4 May 2018 reversed previously accrued production costs.

Net financial items for continued operations amounted to an income of NOK 20 million in 2018, compared to an income of NOK 31 million in 2017. The reduced net financial items are mainly due to currency translation.

Interest expenses on bond loans decreased from NOK 31 million in 2017 to NOK 15,2 million in 2018. The decrease was driven by the liquidation of Noreco Norway and payment of NOR06 which had an interest of NOK 20,1 million in 2017. The increase of interest expense in NOR10 is related to an increase from 6,5% to 10% interest in 2018 due to extension of the bond with a new maturity date of 6 November 2019.

The effect of change in credit risk is reclassified to OCI from 1. January 2018 according to IFRS 9, previously booked through financial income.

The Group's **net result** for the year from continued operations amounted to a loss of NOK 143 million, compared to a loss of NOK 418 million in 2017.

Taxes for the Group from continued operations amounted to NOK 0 million, compared to an expense of NOK 9 million from a negative net result before tax of NOK 409 million in 2017. This corresponds to an average tax rate of 0 percent in 2018.Noreco operates in three countries and thus under multiple tax regimes. The tax rate represents the weighted results from the different subsidiaries. The Tax rate in 2017 is mainly influenced by the change in deferred tax assets in Denmark and the reversal of deferred tax in Norway due to advance tax assessment for 2017 when ceasing Noreco Norway AS.

Result from discontinued operations amounted to NOK 0 million, compared to a gain of NOK 102 million in 2017. The profit in 2017 relate to excess value of the Zidane payment after paying the bondholders their part.

Net result for the full year 2018, including continued and discontinued operations, was a loss of NOK 143 million, compared to a loss of NOK 316 million last year.

Net cash flow from the Group's continued operations in 2018 amounted to a loss of NOK 23 million. Cash and cash equivalent excluding restricted cash of NOK 578 million was NOK 22 million at year end 2018, down from NOK 133 million at the end of 2017, excluding restricted cash of NOK 600 million.

Interest-bearing debt of the Group had a book value of NOK 471 million (principal amount NOK 475 million) on 31 December 2018, compared to NOK 155 million (principal amount NOK 161 million) at the end of 2017. During the year the Company has issued a short term loan of NOK 312 million in relation to the initial payment to Shell related to the Transaction.

The going concern assumption

Pursuant to the Norwegian Accounting Act section 3-3a, the board confirms that the requirements of the going concern assumption are met and that the annual accounts have been prepared on that basis. The financial solidity and the Company's working capital and cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

Financial risk

Noreco´s most significant risk factors are related to currency exchange rates. For as long as the Transaction with Shell is not completed, Noreco remains exposed towards transaction risk, however this is not viewed as significant. All of the Company's financial debt has a fixed interest rate. More information on the management of financial risk can be found in the notes to the financial statements.

Health, environment and safety

Noreco puts emphasis on everyone performing company activities in line with good business integrity and with respect for people and the environment.

During 2018, Noreco was involved in production of oil and gas which could cause emissions to the sea and air. Noreco's operations were in accordance with all regulatory requirements, and there were no breaches of these requirements in 2018.

Personnel resources and working environment

At the start of 2018 and through the year the Company had 8 employees. 50 percent of the employees were women, same as at the beginning of the year.

The Company's board of directors consists of two women and three men, all elected by shareholders. There are no employee representatives on the Board. At the end of 2018, 40 per cent of the board members were women, same as at end 2017.

Noreco pays equal salaries and gives equal compensation for positions at the same level, regardless of gender, ethnicity, religion or disabilities.

Sick leave in Noreco has decreased compared to previous years. The management's compensation is described in note 9 to the annual accounts.

Research and development

The Company has no activity within research and development.

Corporate governance

The board wishes to maintain an appropriate standard on corporate governance and to fulfil the recommendations in the Norwegian Code of Practice for Corporate Governance.

Corporate governance in Noreco is based on equal treatment of all shareholders through the activity that the board and General Assembly practice. In total, 12 board meetings were held in 2018.

The activities of the board have been focused on promoting value preserving measures in the Company's portfolio, strengthening the Company's financial position and further developing the Company strategy. Significant work was carried out by the board in 2018 regarding the implementation and execution of the strategy.

On 28 June 2018, the Annual General Meeting for 2018 was held in Oslo.

On 8 November 2018, an Extraordinary General Meeting in Norwegian Energy Company ASA was held. The meeting approved, subject to completion of the transaction, a share capital increase (private placement) of approx. NOK 2 883 million by the issuance of 15 585 635 shares at a subscription price of NOK 185 per share. In addition, a subsequent offering of up to a maximum of 1 768 648 new shares at a subscription price of NOK 185 per share. The meeting also approved the issue of a convertible bond loan of up to USD 160 million convertible into ordinary shares of the Company and a new options scheme for Board and Management to subscribe for up to a total of 1 510 000 shares in the Company. Additionally, the board of directors was authorised to increase the share capital with up to NOK 25 549 014. This authorization is valid until the ordinary general meeting in 2020.

Further information on corporate governance and corporate social responsibility can be found in other sections of this report or on the Company's web site, www.noreco.com.

Ownership

There are no restrictions on the transfer of shares in Noreco. The Company currently has approximately 2.300 shareholders, and approximately 27% percent of the shares are held by Norwegian residents.

Norwegian Energy Company ASA

In 2018, the parent company was a pure holding company, and the operating expenses mainly consisted of shareholder costs, M&A costs and payroll expenses. For comments on financial risk and market conditions and statement regarding going concern, please see other parts of this annual report. These comments are also valid for the parent company.

Parent company financial results for 2018

Personnel expenses were NOK 16 million in 2018, decreased by NOK 9 million compared to 2017, mainly due to the NOK 12 million of costs relating to share based payments in 2017 in addition to social tax on beneficial amount from option program realized by former CEO.

Other operating expenses amounted to NOK 15 million in 2018, compared to NOK 13 million in 2017. The 2018 operating expenses are influenced by a large amount of consulting fees, audit fees and solicitor services mainly in relation to new business opportunities in Denmark.

The **net operating result** for continued operations for 2018 was a loss of NOK 26 million compared to a loss of NOK 31 million in 2017, mainly caused by lower personnel expenses.

Reversal of **write-down of financial assets** amounts to NOK 277 million in 2018, which is the reversal of the guarantee provision of NOK 280 million made in relation to the Asset retirement obligation for the Danish subsidiaries in 2017, in addition to net write-down of loans to UK subsidiaries of NOK 3 million.

Other financial expenses increased from NOK 39 million in 2017 to NOK 70 million in 2018. The amount mainly consists of exchange loss.

Net financial items amounted to an income of NOK 334 million in 2018, compared to an expense of NOK 133 million in 2017. The increase in net financial items is mainly due to the reversal of the guarantee provision of NOK 280 million made in relation to the asset retirement obligation in the Danish subsidiaries.

The Company's **net result** for the year from continued operations amounted to a gain of NOK 303 million compared to a loss of NOK 171 million in 2017.

Allocations

The result for the year for Norwegian Energy Company ASA in 2018 was a gain of NOK 303 million. The board proposes the following allocations:

Allocated to other equity	NOK 303 million
Total appropriation	NOK 303 million

Outlook

Following receipt of the governmental approval from the Danish Energy Agency, Noreco is working towards completion of the Transaction by the end of May 2019.

Noreco will continue work to further enhance its reserves and production base and evaluate strategic opportunities.

Oslo,
30 April 2019

Riulf Rustad
Chair

Tone Kristin Omsted
Board Member

Lars Purlund
Board Member

Marianne Lie
Board Member

John Philip Madden
Board Member

Frederik Rustad
Managing Director

Corporate Governance Report 2018

Norwegian Energy Company ASA (“Noreco” or the "Company") has made a strong commitment to ensure trust in the Company and to enhance shareholder value through efficient decision-making and improved communication between the management, the board of directors (the “Board” or “board of directors”) and the shareholders of the Company. The Company's framework for corporate governance is intended to decrease business risk, maximise value and utilise the Company's recourses in an efficient, sustainable manner, to the benefit of shareholders, employees and society at large.

The Company will seek to comply with the Norwegian Code of Practice for Corporate Governance (the "Corporate Governance Code"), last revised on 17 October 2018, which is available at the Norwegian Corporate Governance Committee's website www.nues.no. The principal purpose of the Corporate Governance Code is to ensure (i) that listed companies implement corporate governance that clarifies the respective roles of shareholders, the board of directors and executive management more comprehensively than what is required by legislation and (ii) effective management and control over activities with the aim of securing the greatest possible value creation over time in the best interest of companies, shareholders, employees and other parties concerned.

The Company will, from the time due to the listing of its shares on Oslo Børs, be subject to reporting requirements for corporate governance under the Accounting Act section 3-3b as well as Oslo Børs' "Continuing obligations of stock exchange listed companies" section 7. The board of directors will include a report on the Company's corporate governance in each annual report, including an explanation of any deviations from the Corporate Governance Code. The corporate governance framework of the Company is subject to annual reviews and discussions by the board of directors.

The following provides a discussion of the Company's corporate governance in relation to each section of the Corporate Governance Code. According to the Company's own evaluation, the Company deviates from the Corporate Governance Code on the following points:

(a) Item 4: The board of directors of the Company has been, and is expected to be, provided with authorisations to acquire own shares and issue new shares. Not all of such authorisations have separate and specific purposes for each authorisation as the purposes of the authorisations shall be explained in the notices to the general meetings adopting the authorisations.

(b) Item 11: Options have been and/or are expected to be granted members of the board of directors (in addition to) management through the share option programme of the Company, first implemented at a general meeting of 21 January 2016 and later extended and expanded.

(c) Item 14: Due to the unpredictable nature of a takeover situation, the Company has decided not to implement detailed guidelines on take-over situations. In the event a takeover were to occur, the board of directors will consider the relevant recommendations in the Corporate Governance Code and whether the concrete situation entails that the recommendations in the Corporate Governance Code can be complied with or not.

1. Implementation and reporting on corporate governance

The Company will seek to comply with the Corporate Governance Code. The board of directors will include a report on the Company's corporate governance in its annual report, including an explanation of any deviations from the Corporate Governance Code.

The Company's strategy is to continue its value creation to maximise recovery of proven reserves and resources and to continue to explore new opportunities in and above the ground.

2. Business

The Company is an E&P company with a strategic focus on value creation through increased recovery, enabled by a competent organisation with a long-term view on reservoir management and the capability to invest and leverage new technology.

The Company's business is defined in the following manner in the Company's articles of association (the "Articles of Association") section 3:

The object of the Company is direct and indirect ownership and participation in companies and enterprises within exploration, production, and sale related to oil and gas, and other activities related hereto.

3. Equity and dividends

3.1. Equity

As of 31 December 2018, the Company's consolidated equity was negative NOK 50 million. The Company's equity level and financial strength shall be considered in light of its objectives, strategy and risk profile. The Company has entered into agreements to increase its share capital in connection with the acquisition of SOGU.

3.2. Dividend policy

The Company has not paid any dividends to date, whether in cash or in kind.

Given that the Company is currently in a build-up phase where it will invest heavily in the acquisition of Shell Olie- og Gasudvinding Danmark B.V. ("SOGU") in order to facilitate future growth, the Company does not expect to make dividend payments the foreseeable future. The Company may revise its dividend policy from time to time. The Company currently intends to retain all earnings, if any, and to use these to finance the further growth of the Company.

3.3. Share capital increases and issuance of shares

In the extraordinary general meeting held on 8 November 2018 the board of directors was granted authorization to increase the share capital of the Company in connection with acquisition of shares in SOGU, valid until the ordinary General Meeting in 2020, however in any event no later than until 30 June 2020.

3.4. Purchase of own shares

The board of directors of the Company has been authorized to acquire own shares with a total par value of NOK 7,194,730 that is valid until 28 June 2020. The authorization may be used in relation to incentive schemes, strengthening the equity capital and for funding business opportunities. The Company or any of its subsidiaries does currently not own any treasury shares in the Company.

4. Equal treatment of shareholders and transactions with related parties

4.1. Class of shares

The Company has one class of shares. All shares carry equal rights in the Company, and the Articles of Association do not provide for any restrictions, or rights of first refusal, on transfer of shares. Share transfers are not subject to approval by the board of directors.

4.2. Pre-emption rights to subscribe

According to the Norwegian Public Limited Liability Companies Act section 10-4, the Company's shareholders have pre-emption rights in share offerings against cash contribution. Such pre-emption rights may; however, be set aside, either by the general meeting or by the board of directors if the general meeting has granted a board authorization which allows for this. Any resolution to set aside pre-emption rights will be justified by the common interests of the Company and the shareholders, and such justification will be publicly disclosed through a stock exchange notice from the Company.

4.3. Trading in own shares

In the event of a future share buy-back program, the board of directors will aim to ensure that all transactions pursuant to such program will be carried out either through the trading system at Oslo Børs or at prevailing prices at Oslo Børs. In the event of such program, the board of directors will take the Company's and shareholders' interests into consideration and aim to maintain transparency and equal treatment of all shareholders. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

4.4. Transactions with close associates

The board of directors aims to ensure that any not immaterial future transactions between the Company and shareholders, a shareholder's parent company, members of the board of directors, executive personnel or close associates of any such parties are entered into on arm's length terms. For any such transactions which do not require approval by the general meeting pursuant to the Norwegian Public Limited Liability Companies Act, the board of directors will on a case-by-case basis assess whether a fairness opinion from an independent third party should be obtained.

4.5 Guidelines for directors and executive management

The board of directors has adopted rules of procedures for the board of directors which inter alia includes guidelines for notification by members of the board of directors and executive management if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

The shares of the Company are freely transferable. There are no restrictions on transferability of shares pursuant to the Articles of Association.

6. General meetings
The board of directors will make its best efforts with respect to the timing and facilitation of general meetings to ensure that as many shareholders as possible may exercise their rights by participating in general meetings, thereby making the general meeting an effective forum for the views of shareholders and the board of directors.

6.1. Notification
The notice for a general meeting, with reference to or attached support information on the resolutions to be considered at the general meeting, shall as a principal rule be sent to shareholders no later than 21 days prior to the date of the general meeting. The board of directors will seek to ensure that the resolutions and supporting information are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The notice and support information, as well as a proxy voting form, will normally be made available on the Company's website www.noreco.com no later than 21 days prior to the date of the general meeting.

6.2. Participation and execution
To the extent deemed appropriate or necessary by the board of directors, the board of directors will seek to arrange for the general meeting to vote separately on each candidate nominated for election to the Company's corporate bodies.

The board of directors and the nomination committee shall, as a general rule, be present at general meetings. The auditor will attend the ordinary general meeting and any extraordinary general meetings to the extent required by the agenda items or other relevant circumstances.

The board of directors will seek to ensure that an independent chairman is appointed by the general meeting if considered necessary based on the agenda items or other relevant circumstances.

The Company will aim to prepare and facilitate the use of proxy forms which allows separate voting instructions to be given for each item on the agenda, and nominate a person who will be available to vote on behalf of shareholders as their proxy. The board of directors may decide that shareholders may submit their votes in writing, including by use of electronic communication, in a period prior to the general meeting. The board of directors should seek to facilitate such advance voting.

7. Nomination-committee
The nomination committee is provided and governed by the Articles of Association, in addition to instructions for the nomination committee. The nomination committee shall consist of three members who shall be shareholders or shareholder representatives. The members shall be elected by the general meeting for a term of two years, unless the General Meeting determines that the term shall be shorter.

The members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive personnel. At least one member of the nomination committee should not be a member of the board. No more than one member of the nomination committee should be a member of the board of directors, and any such member should not offer himself for re-election to the board.

The nomination committee shall give its recommendation to the general meeting on election of and compensation to members of the board of directors, in addition to election of and compensation to members of the nomination committee. The proposals shall be justified.

The Company should provide information on the membership of the committee and provide suitable arrangements for shareholders to submit proposals to the committee for candidates for election.

8. Board of directors: composition and independence
Pursuant to the Articles of Association section 5, the Company's board of directors shall consist of three to seven members, which are shareholders elected members in accordance with a decision by the General Meeting.

The composition of the board of directors should ensure that the board can attend to the common interests of all shareholders and meet the company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the board can function effectively as a collegiate body.

The composition of the board of directors should ensure that it can operate independently of any special interests. The majority of the shareholder-elected members of the board should be independent of the Company's executive personnel and material business contacts. At least two of the members of the Board elected by shareholders should be independent of the Company's main shareholder(s), the executive personell and material business contacts.

The board of directors should not include executive personnel, if the board does include executive personnel, the Company should provide an explanation for this and implement consequential adjustments to the organisation of the work of the board, including the use of board committees to help ensure more independent preparation of matters for discussion by the board.

The chairman of the board of directors should be elected by the general meeting.

The term of office for members of the board of directors should not be longer than two years at a time. The board members can be elected for shorter term by the general meeting. The annual report should provide information to illustrate the expertise of the members of the board of directors, and information on their record of attendance at board meetings. In addition, the annual report should identify which members are considered to be independent.

There is a family relationship between the Chairman and the Managing Director of the Company, as Frederik Rustad is the son of Riulf Rustad. Other than this, to the Company's knowledge, the members of the board of directors in Noreco are not related to Noreco’s larger shareholders, management or material business partners.

9. The work of the board of directors

9.1. The rules of procedure for the board of directors

The board of directors is responsible for the overall management of the Company, and shall supervise the Company's business and the Company's activities in general.

The Norwegian Public Limited Liability Companies Act regulates the duties and procedures of the board of directors. In addition, the board of directors has supplementary procedures, which provides regulation on inter alia the duties of the board of directors and the managing director, notices of board proceedings, administrative procedures, minutes, board committees, transactions between the Company and the shareholders and matters or confidentiality.

The board of directors' consideration of material matters in which the chairman of the board is, or has been, personally involved, shall be chaired by some other member of the board.

The board of directors shall evaluate its performance and expertise annually, and make the evaluation available to the nomination committee.

9.2. The audit committee

The Company's audit committee is governed by the Norwegian Public Limited Liability Companies Act and a separate instruction adopted by the board of directors. The members of the audit committee are appointed by and among the members of the board of directors. A majority of the members shall be independent of the Company's operations, and at least one member who is independent of the Company shall have qualifications within accounting or auditing. Board members who are also members of the executive management cannot be members of the audit committee. The principal tasks of the audit committee are to:

(a) prepare the board of directors' supervision of the Company's financial reporting process;

(b) monitor the systems for internal control and risk management;

(c) have continuous contact with the Company's auditor regarding the audit of the annual accounts; and

(d) review and monitor the independence of the Company's auditor, including in particular the extent to which the auditing services provided by the auditor or the audit firm represent a threat to the independence of the auditor.

9.3. The remuneration committee

The compensation for the members of the board of directors for their service as directors is determined annually by the shareholders of the Company at the annual general meetings of shareholders, on the basis of the motion from the Nomination Committee.

The board of directors has established a guideline for salaries and other remuneration to the managing director and other senior executives valid until the annual general meeting in 2019. The guideline was endorsed by the annual general meeting in June 2018.

The remuneration package for members of management includes fixed and variable elements. The fixed element consists of a base salary and other benefits, such as free mobile phone and life, accident and sickness insurance in accordance with normal practice in the oil industry.

Variable elements of remuneration may be used, or other special supplementary payment may be awarded than those mentioned above if this is considered appropriate.

Remuneration to the managing director will be evaluated regularly by the board of directors to ensure that salaries and other benefits are kept, at all times, within the above guidelines and principles.

10. Risk management and internal control

Risk management and internal control are given high priority by the board of directors, which shall ensure that adequate systems for risk management and internal control are in place. The control system consists of interdependent areas which include risk management, control environment, control activities, information and communication and monitoring.

The Company's management is responsible for establishing and maintaining sufficient internal control over financial reporting. Company specific policies, standards and accounting principles have been developed for the annual and quarterly financial reporting of the group. The managing director supervise and oversee the external reporting and the internal reporting processes. This includes assessing financial reporting risks and internal controls over financial reporting within the group. The consolidated external financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards as adopted by the EU.

The board of directors shall ensure that the Company has sound internal control and systems for risk management, including compliance to the Company's corporate values. The Company's guidelines for corporate social responsibility describes the Company's ethical commitments and requirements related to business practice and personal conduct.

If employees experience situations or matters that may be contrary to rules and regulations or these guidelines, they are urged to raise their concern with their immediate superior or another manager in the Company.

The board of directors should analyze the most important areas of exposure to risk and its internal control arrangements, and evaluate the Company's performance and expertise. The board of directors shall present an in-depth report of the Company's financial statement in the annual report. The Audit Committee shall assist the board of directors on an ongoing basis in monitoring the Company's system for risk management and internal control. In connection with the quarterly financial statements, the Audit Committee shall present to the board of directors reviews and information regarding the Company's current business performance and risks.

11. Remuneration of the board of directors

The remuneration of the board of directors shall be decided by the Company's general meeting of shareholders, and should reflect the board of directors' responsibility, expertise, time commitment and the complexity of the Company's activities.

The nomination committee shall give a recommendation as to the size of the remuneration to the board of directors. Pursuant to the instructions for the nomination committee, the recommendation should normally be published on the Company's website at least 21 days prior to the general meeting that will decide on the remuneration.

The annual report shall provide details of all elements of the remuneration and benefits of each member of the board of directors, which includes a specification of any remuneration in addition to normal fees to the members of the Board.

Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the Company in addition to their appointment as a member of the board. If they do nonetheless take on such assignments this should be disclosed to the full board. The remuneration for such additional duties should be approved by the board of directors.

12. Remuneration of the executive management

The board of directors will in accordance with the Norwegian Public Limited Liability Companies Act prepare separate guidelines for the stipulation of salary and other remuneration to key management personnel. The guidelines shall include the main principles applied in determining the salary and other remuneration of the executive management, and shall ensure convergence of the financial interests of the executive management and the shareholders. It should be clear which aspects of the guidelines that are advisory and which, if any, that are binding thereby enabling the general meeting to vote separately on each of these aspects of the guidelines. The guidelines will be made available to and shall be dealt with by the ordinary general meeting in accordance with the Norwegian Public Limited Liability Companies Act.

The board of directors aims to ensure that performance-related remuneration of the executive management in the form of share options, annual bonus programs or the like, if used, are linked to value creation for shareholders or the Company's earnings performance over time. Performance-related remuneration should be subject to an absolute limit. Furthermore, the Company aims to ensure that such arrangements are based on quantifiable factors that the employee in question can influence.

13. Information and communications

13.1. General

The board of directors has adopted a separate manual on disclosure of information, which sets forth the Company's disclosure obligations and procedures. The board of directors will seek to ensure that market participants receive correct, clear, relevant and up-to-date information in a timely manner, taking into account the requirement for equal treatment of all participants in the securities market.

The Company will each year publish a financial calendar, providing an overview of the dates for major events such as its ordinary general meeting and publication of interim reports.

13.2. Information to shareholders

The Company shall have procedures for establishing discussions with important shareholders to enable the Board to develop a balanced understanding of the circumstances and focus of such shareholders. Such discussions shall be done in compliance with the provisions of applicable laws and regulations.

All information distributed to the Company's shareholders will be published on the Company's website at the latest at the same time as it is sent to shareholders.

14. Takeovers

In the event the Company becomes the subject of a takeover bid, the board of directors shall seek to ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The board of directors shall also ensure that the shareholders have sufficient information and time to assess the offer.

There are no defense mechanisms against takeover bids in the Company's Articles of Association, nor have other measures been implemented to specifically hinder acquisitions of shares in the Company. The board of directors has not established written guiding principles for how it will act in the event of a takeover bid, as such situations are normally characterized by concrete and one-off situations which make a guideline challenging to prepare. In the event a takeover were to occur, the board of directors will consider the relevant recommendations in the Corporate Governance Code and whether the concrete situation entails that the recommendations in the Corporate Governance Code can be complied with or not.

15. Auditor

The board of directors will require the Company's auditor to annually present to the audit committee a review of the Company's internal control procedures, including identified weaknesses and proposals for improvement, as well as the main features of the plan for the audit of the Company.

Furthermore, the board of directors will require the auditor to participate in meetings of the board of directors that deal with the annual accounts. At least one board meeting with the auditor shall be held each year in which no member of the executive management is present.

The board of directors' audit committee shall review and monitor the independence of the Company's auditor, including in particular the extent to which services other than auditing provided by the auditor or the audit firm represents a threat to the independence of the auditor.

The remuneration to the auditor for statutory audit will be approved by the ordinary general meeting. The board of directors should report to the general meeting on details of fees for audit work and any fees for other specific assignments.

Corporate Social Responsibility

1. Introduction
Norwegian Energy Company ASA (the “Company” and including its subsidiaries, the “Group”) defines corporate social responsibility (“CSR”) as achieving commercial profitability in a way that is consistent with fundamental ethical values and with respect for individuals, the environment and society.

The Group shall respect human and labour rights, establish good HSE (health, safety and the environment) standards, facilitate good dialogue with stakeholders and generally operate in accordance with applicable regulatory frameworks and good business practice.

At the core of the Company group’s CSR policy is the group’s four customer-centric corporate values: trust, fair, bold and share. The values define who we are, how we act and what employees of the Company and Group stand for.

Each Group company has an independent responsibility for exercising corporate social responsibility in accordance with the Group’s principles, but is free to design its own additional activities and instruments. In addition, each Group company has developed, adopted and is operating according to a Compliance Manual that provides detailed information and a series of policies regarding the professional and ethical standards and compliance requirements of all Group companies.

2. Purpose
The purpose of this policy is to define clear areas of focus for the Company’s approach to CSR and clarify the responsibilities and expectations with regard to our most important stakeholders.

3. Main CSR principles
The Company has identified seven main CSR topics. The Group’s general approach to these topics is described below. Continuous improvement is emphasized, and priority shall be given to areas where the need for improvement and the potential for making an impact are greatest.

3.1. Professional and ethical standards
It is the Group’s policy to maintain the highest level of professional and ethical standards in the conduct of its business affairs. The Group places the highest importance upon its reputation for honesty, integrity and high ethical standards. These standards can only be attained and maintained through the actions and conduct of all personnel in the Group. It is the obligation of the Group’s employees to conduct themselves in a manner to ensure the maintenance of these standards. Such actions and conduct will be important factors in evaluating an employee’s judgment and competence, and an important element in the evaluation of an employee for promotion. Correspondingly, insensitivity to or disregard for the principles of the Group’s professional and ethical standards will be grounds for appropriate disciplinary actions.

The Group’s ethical and professional standard are further detailed in the Group’s compliance manuals.

3.2. Compliance with local culture and regulations
In promoting the Group’s principles for good business operations, we shall always respect local values and norms, and achieve success by bridging the divide between different cultures. Group companies shall always comply with local regulatory requirements in the countries in which we operate.

3.3. Respect for human and labour rights
Group companies are committed to respecting fundamental human and labour rights, both in our own operations and in our relations with business partners. Our employees shall be treated with respect and given orderly working conditions. The Group companies shall work continuously with issues such as non-discrimination, the right to privacy, the right to collective bargaining, employment contracts and protection against harassment. Forced labour, child labour and all forms of discrimination are strictly forbidden.

3.4. Equal opportunities
It is the Group’s position that equal treatment of all employees is applied and that different treatment or discrimination based on person’s gender, race, colour, national origin, age, religion, sexual orientation or any other characteristic protected by applicable law is unacceptable. Furthermore, the Group is committed to equal opportunity for all qualified employees and job applicants. All employment decisions (such as hiring, discipline, terminations, promotions and job assignments) are to be based on the Group’s needs and an employee’s performance and potential.

3.5. Anti-corruption and bribery
The Group has a zero tolerance policy regarding corruption and bribery. Corruption undermines all sorts of business activities and free competition, and it is prohibited by law in all the countries in which we operate. Corruption is destructive for the countries involved and would erode our reputation, exposing the Group and the individual employee to consid-

erable risk. The Company expects that local management of each Group subsidiary promotes a strong anti-corruption culture. Each company shall make active efforts to prevent undesirable conduct, and ensure that their employees are capable of dealing with difficult situations. A detailed bribery and corrupt payments policy can be found in each Group company's Compliance Manual.

3.6. Health, safety and the working environment

A healthy work environment contributes to a better health, greater engagement and increased job satisfaction. The goal is to create a safe and pleasant work environment that contributes to motivated and committed employees, which ultimately is important for the Group's continued success. This requires continuous effort, and is a natural part of the Group's daily operations. The Group has no records of accidents or injuries in recent years, and has therefore not deemed it necessary to take special measures in this area, but expects this to be an area of focus going forward.

3.7. Environmental issues

The Group's business in the oil market affects the external environment. All phases of the oil business present environmental risks and hazards and are subject to strict environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. All activities are subject to the receipt of necessary approvals or licences. The Group aims to protect the environment to the greatest extent possible, both in its own operations, and will also following completion of the transaction promote the environment in the Group's partnership in the DUC.

4. Whistleblowing

It is important that someone who discovers wrongdoing and non-compliance with the Company's CSR policy and other policies is able to report it without risk of retaliation or discrimination. The Company has established a Whistleblowing Policy which purpose is to encourage everyone to raise concerns about matters occurring within or related to the Group so that the problem can be resolved promptly and efficiently using internal company resources, rather than overlooking a problem or seeking a resolution of the problem outside the Company which may delay the elimination of the problem and cause harm to the Group and its employees.

The Whistleblowing Policy applies to all officers, directors and employees of the Company, whether temporary or permanent, full-time or part-time, and regardless of their location.

Anyone doing business for or on the Company's behalf, including the Company's advisors, agents, consultants, contractors, distributors, lawyers, partners, sales representatives, suppliers and other third parties with whom the Company enters into a joint venture, partnership, investment, teaming arrangement or other business combination must comply with the Group's Whistleblowing Policy. Further details of the Whistleblowing Policy can be found in the Group's compliance manuals.

5. Roles and responsibilities

The Group's CSR policy is adopted by the Company's board of directors and shall be evaluated at least every second year.

The managing director of the Company is responsible for ensuring the follow up of and compliance with the content of the policy.

All Group subsidiaries are responsible for the day-to-day practice of this policy.

Statutory Accounts 2018

Norwegian Energy Company ASA
(Parent company)

Content

Income Statement for Norwegian Energy Company ASA (Parent company)
for the year ended 31 December

NOK million	Note	2018	2017
Revenue		-	-
Total revenues		**-**	**-**
Personnel expenses	10, 14	(16)	(25)
Other operating expenses	13, 14	(15)	(13)
Total operating expenses		**(31)**	**(38)**
Net operating result		**(31)**	**(38)**
Interests received from group companies		73	65
Interest income		1	0
Other financial income [1]		81	133
Write-down of financial assets	11	277	(273)
Interest expenses to group companies		(4)	(8)
Interest expenses		(23)	(11)
Other financial expenses [2]		(70)	(39)
Net financial items		**334**	**(133)**
Result before tax		**303**	**(171)**
Net result for the year		**303**	**(171)**
Appropriation:			
Allocated to/(from) other equity		303	(171)
Total appropriation		**303**	**(171)**

1) Other financial income is currency translation income of NOK 81 million (2017: NOK 80 million)
2) Other financial expenses is currency translation expense of NOK 65 million (2017: NOK 35 million) and other financial expenses of NOK 5 million (2017: NOK 4 million)

Balance sheet for Norwegian Energy Company ASA (Parent company)
for the year ended 31 December

NOK million	Note	31.12.18	31.12.17
ASSETS			
Non-current assets			
Financial non-current assets			
Investment in subsidiaries	2	0	0
Loan to group companies		484	187
Restricted cash	3	578	578
Machinery and equipment		1	1
Total non-current assets		**1 063**	**766**
Current assets			
Receivables			
Receivables from group companies		100	89
Other current receivables		46	0
Total current receivables		**147**	**89**
Financial current assets			
Restricted cash	3	1	2
Bank deposits, cash and cash equivalents		8	26
Total financial current assets		**8**	**28**
Total current assets		**155**	**117**
Total assets		**1 218**	**883**
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital	7,8	72	72
Total paid-in capital		**72**	**72**
Retained earnings			
Other equity	7	582	299
Total retained earnings		**582**	**299**
Total equity		**654**	**371**
Liabilities			
Provisions			
Guarantee provisions	11	-	280
Total provisions		**-**	**280**
Current liabilities			
Bond loan	4	163	161
Other interest bearing debt		312	-
Trade payables		25	4
Debt to group companies		30	55
Other current liabilities	5	33	12
Total current liabilities		**564**	**232**
Total liabilities		**564**	**512**
Total equity and liabilities		**1 218**	**883**

Cash Flow for Norwegian Energy Company ASA (Parent company)
for the year ended 31 December

NOK million	Note	2018	2017
Net result for the period		303	(171)
Adjustments to reconcile net result before tax to net cash flows from operating activities:			
Depreciation and writedowns		0	0
Write-downs	11	(277)	273
Share based payment		5	13
Unrealised loss / (gain) related to financial instruments		-	-
Gain on extinguishment of debt	4	-	-
Loss on repurchase of bonds		0	-
Interest received /paid - net		46	13
Group contribution and impairments with no cash effect		-	(67)
Effect of changes in exchange rates		(16)	(45)
Payment in kind Interest with no cash effect		8	-
Changes in working capital			
Changes in trade receivable		(12)	(71)
Changes in trade payables		21	8
Changes in other current balance sheet items		24	14
Net cash flow from operations		**103**	**(33)**
Cash flows from financing activities			
Issue of share capital		-	4
Paid issue cost		(43)	-
Proceeds from issuance of short-term loan		312	-
Prepayment to Subsidiary for acquisition of tangible assets		(348)	-
Payment of loans from group companies		29	11
Payment of loans to group companies		(59)	-
Purchase own bonds		(6)	-
Interest paid		(5)	(5)
Net cash flow from (used) in financing activities		**(121)**	**10**
Net change in cash and cash equivalents		(18)	(23)
Cash and cash equivalents at the beginning of the period		26	49
Cash and cash equivalents at end of the year		**8**	**26**

1 Accounting principles

Norwegian Energy Company ASA is a public limited company registered in Norway, with headquarters in Oslo (Nedre Vollgate 1, 0158 Oslo).

The annual accounts for Norwegian Energy Company ASA ("Noreco" or the "Company") have been prepared in compliance with the Norwegian Accounting Act ("Accounting Act") and accounting principles generally accepted in Norway ("NGAAP") as of 31 December 2018.

The Company is listed on the Oslo Stock Exchange under the ticker "NOR". The financial statements for 2018 were approved by the board of directors on 30 April 2019 to be approved by the Annual General Meeting on 15 May 2019.

Going concern
The board of directors confirm that the financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these financial statements. The financial solidity and the company's working capital and cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

As part of the Transaction, Noreco will raise additional capital through a new seven-year Reserve Based Lending Facility up to USD 900 million with a sub-limit of USD 100 million for lettersof credit, by the issuance of a convertible bond of up to USD 160 million, issuing new ordinary shares through a USD 352 million private placement and USD 40 million through a partially underwritten subsequent offering. In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million which upon closing of the Transaction will be rolled into the convertible bond issue at par.

Basis of preparation
The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

Use of estimates
The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply judgment. Areas, which to a great extent contain such judgments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

Revenues
Income from sale of services are recognised at fair value of the consideration, net after deduction of VAT. Services are recognised in proportion to the work performed.

Classification of balance sheet items
Assets intended for long term ownership or use have been classified as fixed assets. Receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's installment on long term liabilities and long term receivables are classified as current liabilities and assets.

For interest bearing debt where the company is required to be in compliance with financial covenants, the loans are classified as current liabilities if Noreco is in breach with the covenants to that extent that the loan would be payable on the demand of the creditor. If a waiver is agreed with the creditor prior to approval of these financial statements, the classification is carried forward in accordance with the payment schedule of the initial borrowing agreement.

Investments in subsidiaries
For investments in subsidiaries, the cost method is applied. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken as income. Dividends exceeding the portion of retained profit after the aquisition are reflected as a reduction in cost price.

Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount.

Asset impairments
Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cash flows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost of disposal and the recoverable amount.

Previous impairment charges are reversed in later periods if the conditions causing the write-down are no longer present.

Debtors
Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debt provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a writedown is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

Foreign currencies
Assets and liabilities in foreign currencies are valued at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognised as other financial income and other financial expenses.

Bonds and other debt to financial institutions
Interest-bearing loans and borrowings are initially recognised at cost and subsequently measured at historical cost. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised either in interest income and other financial items or in interest and other finance expenses within Net financial items. Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date, or if they are held for the purpose of being traded.

Other liabilities
Liabilities, with the exception of certain liability provisions, are recognised in the balance sheet at nominal amount.

Taxes
The tax in the income statement includes payable taxes for the period, refundable tax and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carryforward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. Deferred tax and tax benefits which may be shown in the balance sheet are presented net. Deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is not presented in the balancesheet due to uncertainty about future earnings.

Tax reduction on group contributions given and tax on group contribution received, recorded as a reduction of cost price or taken directly to equity, are recorded directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes).

Deferred tax is reflected at nominal value.

Cash flow statement
The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

2 Investments in subsidiaries

Investments in subsidiaries are booked according to the cost method.

NOK million Subsidiaries	Location	Ownership/ voting right	Equity 31 December 2018	Net Income 2018	Book value
Altinex AS	Oslo	100 %	(391)	(31)	-
Norwegian Energy Company UK Ltd	Great Britain	100 %	(8)	(1)	-
Djerv Energi AS	Oslo	100 %	-0	-0	-
Book value 31.12.18					**-**

Investment in Altinex is unchanged compared to last year following an impairment test as of 31 December 2018. The impairment is justified by the overall value of subsidiaries in Altinex AS. The intercompany receivable related to the UK investment is impaired to zero.

3 Restricted Bank Deposits

NOK million	2018	2017
Restricted cash pledged as security for abandonment obligation [1)]	578	578
Other restricted cash and bank deposits	1	2
Total restricted bank deposits	**578**	**580**

1) Restricted cash pledged as security for abandonment obligation in Denmark originally NOK 499 million (DKK 445 million) adjusted for interest.

4 Borrowings

4.1 Summary of borrowings

NOR10 Bond Loan
The NOR10 senior secured callable bond was issued in December 2013 and later restated and amended in March 2015. The initial bond issue was NOK 1,399,050,000 and the proceeds were used to refinance certain existing bond agreements of the Company. The loan carries fixed interest at a rate equal to 10.0% per annum and is callable from 6 December 2018 at 101.5% of par value up until maturity. The maturity date is 6 November 2019 and interest is payable on 6 September 2019 and the maturity date. On 1 November 2018, the bondholders approved certain amendments to the bond agreement in connection with the Transaction. The Company will upon closing of the Transaction call the outstanding bonds at 101.5% of par value (plus accrued but unpaid interest). The bonds will then be fully redeemed. In the event that the Transaction is not completed, the maturity date of the bond will be 31 March 2020.

Short-Term Funding Loan
On 16 October 2018, the Company entered into a short-term funding agreement with the investors participating in financing of the Transaction in order to fund part of an initial deposit payment to the Shell (the "ST-Loan"). The principal of the loan is USD 35,000,000 and it carries a fixed interest at a rate of 12.0% per annum. The ST-Loan including accrued interest will upon closing of the Transaction be rolled into the Convertible Bond at par. If completion of the Transaction does not occur, the ST-Loan shall be rolled into the current NOR10 bond issue at par and be repaid together with accrued interest in cash on 31 March 2020. The loan is secured by the initial deposit payment of USD 40,000,000 made in connection with the Transaction.

For more information please see the consolidated financial statement for Noreco, note 23.

NOK million	2018	2017
Current debt		
NOR10 bond loan	163	161
ST-Loan[1)]	312	-
Total	**475**	**161**
Total borrowings	**475**	**161**

1) Principal of the loan is USD 35 million

4.2 Covenants

Covenants relating to interest bearing debt outstanding on 31 December 2018
The NOR10 bond constitutes senior debt of the Company and is secured on a first priority basis against certain of the Company´s Danish and English subsidiaries and their assets. The bond agreement contains special covenants which, among other, restrict the Company from taking on additional debt and declaring dividends. The agreement does not contain any financial covenants. The covenants were in line with what is considered custom-ary in the Norwegian high yield bond market. Norwegian Energy Company ASA (parent) was in line with the covenants at 31 December 2018.

4.3 Payment Structure

Payment structure loans after refinancing (NOK million):

Principle	NOR10	ST-Loan	Total
2019	163	312	475
Total	**163**	**312**	**475**

Interest	NOR10	ST-Loan	Total
Interest rate	**10,00 %**	**12,00 %**	
2019	8	18	26
Total	**8**	**18**	**26**

If completion of the Transaction does not occur, the ST-Loan shall be rolled into the current NOR10 bond issue at par and be repaid together with accrued interest in cash on 31 March 2020.

4.4 Assets Pledged as Security for Interest Bearing Debt

Specification of assets pledged as security as at 31 December:

NOK million	2018	2017
Collateralised debt (book value)		
Bond loans	163	161
ST-Loan	312	-
Total collateralised debt (book value)	475	161
Capitalised value in the consolidated accounts of assets pledged as securities		
Shares in subsidiaries	0	0
Total capitalised value	0	0

5 Current Liabilities

NOK million	2018	2017
Accrued interest	5	3
Salary accruals	21	0
Other current liabilities	7	8
Total other current liabilities	**33**	**12**

6 Guarantees

Overview of issued guarantees on 31 December 2018
The parent company of the Group Norwegian Energy Company ASA ("Noreco") has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited to the UK Secretary of State under the terms of the licence and the company does not repay those sums on first demand, Noreco shall pay to the UK Secretary of State on demand an amount equal to all such sums. Department for Business, Energy & Industrial Strategy, declined at the time of transfer of the license to withdraw Noreco Oil (UK)'s s29 notice with respect to the Huntington platform and pipeline. Under the forfeiture agreement Premier E&P ("Premier") assumes this risk as between Premier and Noreco, while this contingent liability to the Secretary of State would need to be recognised in any future sale of the company, Noreco Oil (UK) Limited does have recourse against Premier if it defaults in its performance.

On 6 December 2007, Noreco issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S.

On 31 December 2012, Norwegian Energy Company ASA issued a parent company guarantee on behalf of its subsidiary Noreco Norway AS. Noreco guarantees that, if any sums become payable by Noreco Norway AS to the Norwegian Secretary of State under the terms of the licences and the company does not repay those sums on first demand, Norwegian Energy Company ASA shall pay to the Norwegian Secretary of State on demand an amount equal to all such sums. Noreco Norway AS was liquidated in 2018.

On 6 December 2013, several subsidiaries in the Noreco group entered into Co-debtor guarantees related to the refinancing of outstanding bonds at that time. These are unconditional and irrevocable Norwegian law on-demand guarantee from the Guarantor securing the Obligor's obligations when they have become due under the Bond Agreement and any other Finance Document, including interest, cost and expenses, with payment by the Guarantor to be made within 10 business days of any demand, such guarantees to be qualified as required by Danish law with respect to any Danish Guarantor.

7 Shareholders' equity

Changes in equity	Share capital	Share premium	Other paid-in equity	Other equity	Total
Equity 31 December 2017	72	3		296	371
Transaction cost - Equity issue	-			(5)	(5)
Correction previous year	-			(0)	(0)
Share option program				(15)	(15)
Profit for the year				303	303
Equity 31 December 2018	**72**	**3**	**-**	**579**	**654**

8 Share capital and shareholder information

Changes in equity	2018	2017
Ordinary shares	7 194 730	7 194 730
Total shares	7 194 730	7 194 730
Par value	10,00	10,00

The Group does not own any of its parent company shares. All shares have equal rights.

Changes in number of shares and share capital:

NOK million	No. of shares	Share Capital
Share capital on 1 January 2017	7 094 730	71
Share issue 13 June 2017	50 000	1
Share issue 11 September 2017	50 000	1
Share capital on 31 December 2017	**7 194 730**	**72**

NOK million	No. of shares	Share Capital
Share capital on 1 January 2018	7 194 730	72
Share capital on 31 December 2018	**7 194 730**	**72**

Changes in 2018
There has been no changes to the share capital in 2018.

Changes in 2017
On 13 June 2017 the share capital of Noreco was increased by NOK 500,000 from NOK 70 947 300 to NOK 71 447 300 by issuance of 50 000 new shares, each at a nominal value of NOK 10, for a subscription price of NOK 42 per share. The new shares were subscribed for by Silje Augustson, CEO at the time.

On 11 September 2017 the share capital of Noreco was increased by NOK 500,000 from NOK 71 447 300 to NOK 71 947 300 by issuance of 50 000 new shares, each at a nominal value of NOK 10, for a subscription price of NOK 42 per share. The new shares were subscribed for by Silje Augustson, CEO at the time.

Existing mandates
The board of directors was in November 2018 granted a mandate by the General Meeting to increase the share capital by a total amount of up to approx. NOK 24,5 million by one or more share issues in relation to the employee incentive schemes existing at any time for employees in the group as well as strengthening of the company`s balance sheet and in relations to business opportunities. The mandate is valid until the ordinary general meeting in 2020.

Overview of shareholders at 11 April 2019:

Changes in equity	Shareholding	Ownership share	Voting share
Goldman Sachs International	3 236 430	44,98 %	44,98 %
Euroclear Bank S.A./N.V.	789 864	10,98 %	10,98 %
State Street Bank and Trust Comp	194 178	2,70 %	2,70 %
UBS AG	157 939	2,20 %	2,20 %
OUSDAL AS	142 975	1,99 %	1,99 %
Bank of America, N.A.	129 959	1,81 %	1,81 %
Goldman Sachs & Co. LLC	125 730	1,75 %	1,75 %
CREDIT SUISSE SECURITIES (USA) LTD	120 200	1,67 %	1,67 %
ALTO HOLDING AS	119 332	1,66 %	1,66 %
Citibank Europe plc	110 406	1,53 %	1,53 %
HANASAND, LIV INGER	104 000	1,45 %	1,45 %
LEIKVOLLBAKKEN AS	100 777	1,40 %	1,40 %
HANASAND, EINAR MIKAL	95 000	1,32 %	1,32 %
MOROAND AS	57 500	0,80 %	0,80 %
VELDE HOLDING AS	56 400	0,78 %	0,78 %
PERSHING LLC	51 305	0,71 %	0,71 %
REECO AS	47 630	0,66 %	0,66 %
DIRECTMARKETING INVEST AS	47 244	0,66 %	0,66 %
SIX SIS AG	43 625	0,61 %	0,61 %
SOGNNES, WALTER	39 600	0,55 %	0,55 %
Total	**5 770 094**	**80,2 %**	**80,2 %**

Other owners (ownership <0,55%)	1 424 636	19,8 %	19,8 %
Total number of shares at 11 April 2018	**7 194 730**	**100 %**	**100 %**

9 Share-based compensation

Fair value of the option is calculated by external advisors using the Black and Scholes Merton option pricing model. Inputs to the option pricing model is for instance grant date, exercise price, expected exercise date, volatility and risk free rate.

Outstanding share options and bonus shares	
Total share options and bonus shares outstanding as at 1 January 2017	200 652
Share options granted in 2017 [1)]	80 000
Share options excercised by former CEO [2)]	(100 000)
Share options and bonus shares forfeited by employees due to the discontinuation of the options program	(25)
Outstanding at 31 December 2017	**180 627**
Share options settled or forfeited due to the discontinuation of the options program	(180 627)
Outstanding at 31 December 2018	**0**

1) The granted shares in 2017 have no vesting period and the fair value at grant date was NOK 141 per share.
2) The exercised shares in 2017 were exercised at a share price of NOK 250 per share for the shares exercised at 13 June 2017 and NOK 296 per share for the shares exercised at 11 September 2017.

10 Payroll Expenses and Remuneration

NOK million	2018	2017
Salaries (incl. directors' fees)	(9)	(8)
Social security tax	(1)	(4)
Pension costs [1)]	(0)	(1)
Costs relating to share based payments	(5)	(13)
Other personnel expenses	(1)	(0)
Total personnel expenses	**(16)**	**(25)**
Average number of employees	8	5

See note 9 in the Consolidated financial statement for further information on remuneration to key management personnel and board of directors.

1) Norwegian Companies are obliged to have occupational pension in accordance with the Norwegian act related to mandatory occupational pension. Noreco ASA meet the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon"). The pension costs amounts to 0,4 million in 2018, compared to NOK 0,7 million i 2017.

11 Writedown of financial assets

NOK million	2018	2017
Writedown investments in subsidiaries	-	0
Net writedown loans to subsidiaries	(3)	7
Provision guarantee related to Danish subsidiaries	280	(280)
Total writedown of financial assets	**277**	**(273)**

Write down loans to subsidiaries mainly consists of impairment of loans to Joint venture, Noreco Oil (UK) Ltd. and Norwegian Energy Company UK Ltd. Impairment of the guarantee made by Noreco ASA in relation to the asset retirement obligation in the Danish subsidiaries of NOK 280 million was reversed in 2018 due to the Danish subsidiaries are able to meet their asset retirement obligations from 2019.

12 Tax

Reconciliation of nominal to actual tax rate:

NOK million	2018	2017
Result before tax	303	(171)
Corporation income tax of income (loss) before tax — 23%	70	(41)
Sum calculated tax expense	**70**	**(41)**
Permanent differences	3	1
Changes in deferred tax asset — not recognised	75	40
Changes in tax rate	(8)	–
Income tax expense	**0**	**0**

Deferred tax liability and deferred tax assets:

NOK million	2018	2017
Net operating loss deductible	518	529
Fixed assets	-	-
Current assets	312	309
Liabilities	-	280
Tax base deferred tax liability / deferred tax asset	829	1 118
Net deferred tax liability / (deferred tax asset) (22% / 23%)	(182)	(257)
Unrecognised deferred tax asset	182	257
Deferred tax liability / (deferred tax asset) recognised	-	-
Recognised deferred tax asset	-	-
Recognised deferred tax liability	-	-

13 Other operating expenses and audit fees

NOK million	2018	2017
Lease expenses	(1)	(1)
IT expenses	(1)	(1)
Travel expenses	(1)	(2)
General and administrative costs	(0)	(0)
Consultant fees	(9)	(6)
Other operating expenses	(2)	(2)
Total other operating expenses	**(15)**	**(13)**

Expensed audit fee:

NOK million	2018	2017
Statutory audit (incl. audit related services with financial statements)	(1)	(1)
Total audit fees	**(1)**	**(1)**

VAT is not included in the audit fee

14 Related party transactions

Transactions with related party NOK million	2018	2017
a) Allocation of cost to group companies	8	12
b) Purchases of services	7	7
c) Sale of assets	–	–

Interest income and interest expenses to group companies are presented separately in the income statement

Services are charged between group companies at an hourly rate which corresponds to similar rates between independent parties. The revenue is registered as a cost reduction since operationally it is considered cost sharing.

Allocation of service cost to group companies amounts to NOK 8 million for 2018.

The difference from last year is mainly caused by the Share Options that was included in the Service cost allocation in 2017.

Purchase of services includes consultancy cost from board members of NOK 6 million in addition to office rent of NOK 1 million.

Noreco is renting offices from Riulf Rustad at a cost of NOK 84.000 pr month. The cost increased to NOK 96.000 pr month from December when the number of Employees increased. The agreement is assumed to be at arm's length.

Balances with group companies
Carrying value of balances with group companies are stated on the face of the balance sheet and are all related to 100 percent controlled subsidiaries.

Noreco did not have any other transactions with any other related parties during 2018. Director's fee paid to shareholders and remuneration to management is described in Note 9 in the consolidated financial statements.

Consolidated Statements

Content

Consolidated Statement of Comprehensive Income

NOK million	Note	2018	2017 1)
Continuing operation			
Revenue	5,6	**16**	**10**
Production expenses	7	(3)	(386)
Exploration and evaluation expenses	8	-	-
Payroll expenses	9,21	(19)	(29)
Other operating expenses	10	(156)	(33)
Total operating expenses		**(178)**	**(448)**
Operating results before depreciation and write-downs		**(162)**	**(439)**
Depreciation		(1)	(1)
Write-downs and reversal of write-downs	12,13	-	-
Net operating result		**(163)**	**(440)**
Financial income	14,32	179	180
Financial expenses 1)	14,32	(159)	(149)
Net financial items		**20**	**31**
Result before tax		**(143)**	**(409)**
Income tax expense (benefit)	15	0	(9)
Net result for the year continuing operation		**(143)**	**(418)**
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	5	(0)	102
Net result for the period		**(143)**	**(316)**
Items that will not be reclassified to profit or loss			
Change in fair value of bond debt 1)		(3)	(17)
Items that are or may be reclassified subsequently to profit or loss			
Currency translation adjustment		(31)	20
Total other comprehensive income (loss) for the year (net of tax)		**(34)**	**3**
Total comprehensive income (loss) for the year (net of tax)		**(177)**	**(312)**
Earnings per share (NOK 1)			
Basic	16	(19,8)	(43,9)
Diluted	16	(19,8)	(43,9)
Earnings per share continuing operation (NOK 1)			
Basic	16	(19,8)	(58,1)
Diluted	16	(19,8)	(58,1)

1) Restated 2017 due to implementation of IFRS 9 from 1 January 2018. Change in fair value of bond debt due to own credit risk has been reclassified from financial expenses to other comprehensive income. See note 14.

Note 1 to 31 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position
as of 31 December

NOK million	Note	31.12.2018	31.12.2017
Non-current assets			
Deferred tax assets	15	0	0
Property, plant and equipment	13,26	10	11
Restricted cash	18,19	578	598
Total non-current assets		**558**	**609**
Current assets			
Tax refund	15	0	(0)
Trade receivables and other current assets	17,19	471	174
Restricted cash	18,19	1	2
Bank deposits, cash and cash equivalents	18,19	22	133
Total current assets		**494**	**310**
Total assets		**1 082**	**919**
Equity			
Share capital	20	72	72
Other equity	20,25	(122)	69
Total equity		**(50)**	**141**
Non-current liabilities			
Deferred tax	15	0	0
Asset retirement obligations	22	594	593
Total non-current liabilities		**594**	**593**
Current liabilities			
Bond loan	19,23,26	160	155
Other interest bearing debt	19,23,26	312	(0)
Trade payables and other current liabilities	19,24	66	30
Total current liabilities		**537**	**185**
Total liabilities		**1 132**	**778**
Total equity and liabilities		**1 082**	**919**

Note 1 to 31 are an integral part of these consolidated financial statements

Oslo,
30 April 2019

Riulf Rustad
Chair

Tone Kristin Omsted
Board Member

Lars Purlund
Board Member

Marianne Lie
Board Member

John Philip Madden
Board Member

Frederik Rustad
Managing Director

NOK million	Note	Share capital	Currency translation fund	Other equity	Total equity
Equity at 01.01.2017		**71**	**473**	**(107)**	**437**
Net result for 2017				(316)	(316)
Comprehensive income/(lossfor the period (net of tax					
Change in fair value of bond debt			-	(17)	(17)
Currency translation adjustments		-	20		20
Total comprehensive income (loss) for 2017	19	**-**	**20**	**(17)**	**3**
Transactions with owners					
Proceeds from share issued	20	1	-	3	4
Share-based incentive program	25	-	-	13	13
Total transactions with owners for the period		**1**	-	**16**	**17**
Equity at 31.12.2017		**72**	**493**	**(424)**	**141**
Equity at 01.01.2018		**72**	**493**	**(424)**	**141**
Net result for 2018				(143)	(143)
Comprehensive income/(lossfor the period (net of tax					
Change in fair value of bond debt				(3)	(3)
Currency translation adjustments		-	(31)	-	(31)
Total comprehensive income(loss) for 2018		**-**	**(31)**	**(3)**	**(34)**
Transactions with owners					
Proceeds from share issued	20	-	-	0	0
Share-based incentive program	25	-	-	(15)	(15)
Total transactions with owners for the period		**-**	**-**	**(14)**	**(14)**
Equity at 31.12.2018		**72**	**462**	**(584)**	**(50)**

Note 1 to 31 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
for the year ended 31 December

NOK million	Note	2018	2017 [1)]
Net result for the period		(143)	(316)
Income tax benefit for total operations	15	(0)	(6)
Adjustments to reconcile net result before tax to net cash flows from operating activities:			
Tax refunded	15	(0)	401
Depreciation	13	(1)	(0)
Share-based payments expenses	25	5	13
Change in fair value of bond debt	14,19	-	22
Change in fair value of bonds own credit risk	14	(3)	(17)
Effect of changes in exchange rates (net foreign exchange loss)	14	(31)	20
Paid abandonment cost	22	0	(9)
Payment in kind interest with no cash effect		8	36
Reversal of Siri claim			343
Changes in working capital			
Changes in trade receivable		93	1
Changes in trade payables		41	(37)
Changes in other current balance sheet items		13	(12)
Net cash flow from operating activities		(19)	**438**
Cash flows from investing activities			
Prepayment for acquisition of tangible assets	13 ,17	(346)	1
Net cash flow used in investing activities		**(346)**	**1**
Cash flows from financing activities			
Issue of share capital		0	4
Paid transaction cost of convertible bond loan	17	(43)	
Proceeeds from issuance of short-term loan	23	312	
Paid transaction cost of equity issue in 2019		(4)	0
Repayment of bonds	23	-	(393)
Repurchase own bonds	23	(6)	-
Interest paid	23	(5)	(5)
Net cash flow from financing activities		**254**	**(394)**
Net change in cash and cash equivalents		**(111)**	**45**
Cash and cash equivalents at the beginning of the year	18	133	89
Cash and cash equivalents at end of the year	**18**	**22**	**133**

1) Restated 2017 due to implementation of IFRS 9 from 1 January 2018. Change in fair value of bond debt due to own credit risk has been reclassified from financial expenses to other comprehensive income. See note 14.

Notes

1 General information

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. The Company is listed on the Oslo Stock Exchange.

The consolidated financial statements for 2018 was approved by the board of directors on 30 April 2019 for adoption by the General Meeting on 15 May 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Group also provides the disclosure requirements as specified under the Norwegian Accounting Law (Regnskapsloven).

2.1 Basis of preparation

The consolidated financial statements of Norwegian Energy Company ASA (Noreco ASA) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS interpretation committee (IFRIC), as endorsed by the EU. The Group does also provide information which is obligated in accordance with the Norwegian Accounting Act and associated N-GAAP standards.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

In accordance with the Norwegian Accounting Act, section 3-3a, the board of directors confirms that the consolidated financial statements have been prepared under the assumption of going concern and that this is the basis for the preparation of the financial statements. The financial solidity and the company's working capital and cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

The board of directors is of the opinion that the consolidated financial statements give a true and fair view of the Company's assets, debt, financial position and financial results. The board of directors are not aware of any factors that materially affect the assessment of the Company's position as of 31 December 2018, besides what is disclosed in the Director's report and the financial statements.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

2.1.1 Changes in accounting policies and disclosures

IFRS 9 and IFRS 15 is adopted by the Group while IFRS 16 is not yet effective, and the Group has not early adopted this standard.

IFRS 9 Financial instruments
IFRS 9, effective from 1 January 2018, has replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new model for classification and measurement of financial assets and financial liabilities, a reformed approach to hedge accounting, and a more forward-looking impairment model. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets.

The standard permits early adoption, and was issued July 2014. IFRS 9 was endorsed by the EU in late 2016.

IFRS 9 requires that for a financial liability designated as at fair value through profit or loss the effects of changes in the liability's credit risk shall be included in other comprehensive income instead of through profit and loss. This is relevant for the bond loans recognized at fair value through profit or loss according to IFRS 9. This does not have any effect on total equity. Comparative figures for 2017 are restated in the Consolidated financial statements 2018.

The group uses practical expedients when measuring expected credit losses, taking into consideration the customer base, historical experience, outlook and detailed evaluation of some individual balances. The effect of classification of financial instruments and the expected credit loss principle haven't had any significant impact on the financial statements of the group and the group has not any effect on equity 1 January 2018.

IFRS 15 Revenue from contracts with customers

IFRS 15 is a joint revenue recognition standard issued from IASB and FASB and is effective from 1 January 2018, with earlier adoption allowed. The standard presents a single, principles-based five-step model for determination and recognition of revenue to be applied to all contracts with customers. The standard replaces existing IFRS requirements in IAS 11 Construction Contracts and IAS 18 Revenue, as well as supplemental IFRIC guidance. The standard was endorsed by the EU in October 2016. The Group has applied the modified retrospective approach only to contracts that are not completed at 1 January 2018. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard (if any) would be recognized at the date of adoption. Under IFRS 15, revenue will be recognised when the customer obtains control of the hydrocarbons, which will ordinarily be at the point of delivery when title passes. Over/under lifting of hydrocarbons is until end of 2018 classified according to the entitlement method and valued at estimated sales value minus estimated sales costs on the reporting date. IFRS 15 requires the use of sales method instead of entitlement method which imply that underlift will be classified as a reduction of production expense with a contra entry on prepayment in which case you are entitled to the oil which is not lifted and not yet sold. The overlift will be booked as sales with a corresponding cost accrual related to the overlift which you are not entitled to. IFRIC concluded in March 2019 that the joint operator recognizes revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognized applying IFRS 15. This means, for example, the joint operator does not recognize revenue for the output to which it is entitled but which it has not received from the joint operation and sold. The Group will therefore change accounting policy for over-/undelift from 2019 to meet the latest requirements of IFRIC.

IFRS 16 Leases

IFRS 16 was issued by IASB in January 2016, and is effective from 1 January 2019, covers the recognition of leases and related disclosure in the financial statements, and will replace IAS 17 Leases. In the financial statement of lessees, the new standard requires recognition of all contracts that qualify under its definition of a lease as right-of-use assets and lease liabilities in the balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the lessees' accounting for leases currently defined as operating leases under IAS 17, both with regard to impact on the balance sheet and the statement of income. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. While this definition is not dissimilar to that of IAS 17, it would have required further evaluation of each contract to determine whether all leases included or contracts currently not defined as leases, would qualify as leases under the new standard. The standard introduces new requirements both as regards establishing the term of a lease and the related discounted cash flows that determine the amount of a lease liability to be recognised. The standard requires adoption either on a full retrospective basis, or retrospectively with the cumulative effect of initially recognising the standard as an adjustment to retained earnings at the date of initial application, and if so with a number of practical expedients in transitioning existing leases at the time of initial application. The standard was endorsed in November 2018 by the EU.

The Noreco Group currently leases some office equipment and premises, currently classified as operating leases. Due to the size of lease payments and the duration of the contracts, IFRS 16 is not expected to have a material impact on the Consolidated balance sheet or statement of income.

Other amendments to standards

Other standards and amendments to standards, issued but not yet effective, are either not expected to impact Norecos Consolidated financial statements materially, or are not expected to be relevant to the Consolidated financial statements upon adoption.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

As of 31 December 2018, all consolidated subsidiaries are 100 percent controlled by the parent company, Norwegian Energy Company ASA or other group companies. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the group. All subsidiary undertakings are included in the consolidation.

The group had the following subsidiaries on 31 December 2018:

Name	Country of incorp and place of business	Nature of business	Ordinary shares directly held by parent (%)	Ordinary shares held by the group (%)
Noreco Denmark A/S	Denmark	Intermediate holding company		100 %
Noreco Oil Denmark A/S	Denmark	Exploration and production activity in Denmark		100 %
Noreco Petroleum Denmark A/S	Denmark	Exploration and production activity in Denmark		100 %
Norwegian Energy Company UK Ltd	Great Britain	Exploration activity in Great Britain	100 %	100 %
Noreco Oil (UK) Ltd	Great Britain	Production activity in Great Britain		100 %
Altinex AS	Norway	Intermediate holding company	100 %	100 %
Djerv Energi AS	Norway	Dormant Company	100 %	100 %

The Group entered into agreements to acquire 100% of the shares in Shell Olie- og Gasudvinding Danmark B.V. and its wholly owned subsidiary Shell Olie- og Gasudvinding Danmark Pipelines ApS in 2018.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. Inter-company transactions, balances, income and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

c) Interest in jointly controlled assets
A jointly controlled asset is a contractual agreement between two or more parties regarding a financial activity under joint control. The Group has ownership in licences that are not separate legal companies. The Company recognises investments in jointly controlled assets by applying the proportionate consolidation method by accounting for its share in the assets income, cost, assets, debt and cash flow in the respective line items in the Company's financial statements.

2.3 Segment reporting

The group's segments were established on the basis of the most appropriate distribution of resource and result measurement. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managing director. After the restructuring in 2015, the whole group is considered as a single operating segment.

2.4 Foreign currency translation

a) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the group's presentation currency and the parent company's functional currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

c) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

II) income and expenses for each income statement are translated at the average quarterly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)

III) All currency translation adjustments are recognised in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation adjustments arising are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment include production facilities, machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation.

For property, plant and equipment where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value will be added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of property, plant and equipment, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of-production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This gives a more correct matching of expenses and revenue than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:
- Office equipment and fixtures: 3-5 years

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

2.5.1 Property, plant and equipment available for sale

Property, plant and equipment are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and the fair value less costs of disposal.

2.6 Intangible assets

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

In connection with divestment of assets, gain or loss is calculated by settling all carrying balances related to the realised asset and comparing this with the agreed consideration adjusted for any pro/contra settlement.

In cases where the sold asset forms a part of a cash generating unit to which goodwill is allocated, goodwill is allocated to the sold asset based on the relative share of fair value which forms part of the specific cash generating unit for goodwill. This method is used unless the Company can demonstrate that another method better reflects the goodwill related with the sold asset.

2.7 Impairment of non-financial assets

a) Unit of account
The Group applies each prospect, discovery, or field as unit of account for allocation of profit or loss and balance sheet items.

When performing impairment testing of licence and capitalised exploration expenses and production facilities, each prospect, discovery, or field is tested separately as long as they are not defined to be part of a larger cash generating unit.

Developed fields producing from the same offshore installation are treated as one joint cash generating unit. The size of a cash-generating unit can not be larger than an operational segment.

Goodwill is tested for impairment at the same level in which the goodwill is allocated. During 2015 all goodwill was impaired.

b) Impairment testing
Intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered

2.8 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

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.

2.9 Financial assets

2.9.1 Classification

The Group classifies financial assets and financial liabilities according to IFRS 9 through the mixed measurement model with three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. The classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading that are not measured at amortized cost or at fair value through other comprehensive income. IFRS 9 requires that for a financial liability designated as at fair value through profit or loss the effects of changes in the liability's credit risk shall be included in other comprehensive income instead of through profit and loss. Derivatives are also categorised as available-for-sale unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group classifies loans and receivables according to IFRS 9 through amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group's loans and receivables comprise 'trade and other receivables', "restricted cash" and 'cash and cash equivalents' in the balance sheet (notes 2.11 and 2.12).

2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains' in the period in which they arise.

2.10 Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses whether there is objective evidence that a non derivative financial assets is impaired at the end of each reporting period. A non derivative financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group has no derivatives designated as hedging as of 31 December 2018.

2.12 Trade receivables

Trade receivables are amounts due from customers for oil and gas sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are measured at amortized cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Over/under lifting of hydrocarbons

Over lifting of hydrocarbons is presented as current liabilities, under lifting of hydrocarbons is presented as current receivables. The value of over lifting or under lifting is measured at the estimated sales value, less estimated sales costs. 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, the items are treated as financial instruments at fair value through profit or loss. The item is considered to be a financial instrument as the over/under lift position will be settled in cash at the end of the fields' life time or when the licence is sold or returned.

2.15 Share capital and share premium

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or option shares are recognised as a deduction from equity, net of any tax effects.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are measured at fair value at first time recognition. Subsequent measurements are considered trade payables at amortised cost when using effective interest rate.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. The subsequent measurement depends on which category they have been classified into. The categories applicable for company are either financial liabilities measured at fair value through OCI or financial liabilities measured at amortised cost using the effective interest method. The company has designated the amended and restated bond loan at fair value through profit and loss and the effects of changes in the liability's credit risk through other comprehensive income according to IFRS 9.

Borrowings are classified as non-curent if contactual maturity is more than 12 months from the balance sheet date. If the Group is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12 months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or when the contractual obligation expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income as a gain or loss under financial items. Transaction costs incurred during this process are treated as a cost of the settlement of the old debt and included in the gain or loss calculation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they incur.

2.19 Current and deferred income tax

The tax expense for the period comprises current tax, tax impact from refund of exploration expenses and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets, and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects nether accounting nor taxable profit or loss. Deferred income tax is determined using nominal tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

In Denmark the maximum marginal tax rate for oil and gas companies is 64 per cent, whereof 25 per cent is related to ordinary company tax. When calculating the 39% tax (64%-25%) the company is allowed to deduct an uplift of 30% of the investments in PP&A over a period of 6 years.
Through an agreement from 2017 license holders on Danish Continental Shelf have had the possibility of applying new rules whereby the company will have the possibility of increased uplift and accelerated depreciation during the period from 2017 to 2025. At the same time the companies utilizing the benefit are also liable for a windfall tax that will materialize from 2022 through 2037 with an oil price (indexed from 2017) above USD 75. The windfall tax can not exceed the indexed benefit from the applied rules.

2.20 Pensions

The Group only has defined contribution plans as of 31 December 2018. For the defined contribution plan, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.21 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

Fair value:
- Including any market performance conditions
- Excludes the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

2.22 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and it is probable (more likely than not) that it will result in an outflow from the entity of resources embodying economic benefits, and that a reliable estimate can be made of the amount of the obligation.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22.1 Asset retirement obligations

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk-free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense. If abandonment cost through agreements with partners have been limited to a given amount, this then forms the basis for the recognized liability.

2.23 Contingent liabilities and assets

Contingent liabilities are defined as:
- Possible obligations that arise from past events, whose existence depends on uncertain future events.
- Present obligations which have not been recognised because it is not probable that they will result in a payment.
- The amount of the obligation cannot be measured with sufficient reliability.

Specific mention of material contingent liabilities is disclosed, with the exception of contingent liabilities where the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed if there is a certain probability that a benefit will accrue to the Group.

2.24 Revenue recognition

Under IFRS 15, revenue is recognized when the customer obtains control of the hydrocarbons, which will ordinarily be at the point of delivery when title passes.

Revenue from the production of oil, gas and NGL (hydrocarbons) is recognised depending on the Group's share of production in the separate licences the Group is part of. Over/under lifting of hydrocarbons as a consequence of the entitlement method is valued to estimated sales value minus estimated sales costs on the reporting date. 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 lift time. See note 2.14 for description of accounting for over/under lifting of hydrocarbons in the balance sheet. IFRIC concluded in March 2019 that the joint operator recognizes revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognized applying IFRS 15. This means, for example, the joint operator does not recognize revenue for the output to which it is entitled but which it has not received from the joint operation and sold. The Group will therefore change accounting policy for over-/undelift from 2019 to meet the latest requirements of IFRIC.

2.25 Production cost

Production cost is costs that are directly attached to production of hydrocarbons, e.g. cost for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.28 Consolidated statement of cash flow

The consolidated statement of cash flow is prepared according to the indirect method. See note 2.12 for the definition of “Cash and cash equivalents”.

2.29 Subsequent events

Events that take place between the end of the reporting period and the issuing of the quarterly or annual accounts, will be considered if the event is of such a nature that it gives new information about items that were present on the balance sheet date.

3 Financial risk management

3.1 Financial risk factors

The group's activities expose it to financial risks: market risk (including currency risk, price risk, interest rate risk), credit risk and liquidity risk. The Group uses bonds to finance its operations in connection with the day to day business, financial instruments, such as bank deposits, trade receivables and payables, and other short term liabilities which arise directly from its operations, are utilised.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market risk comprises three types of risk: foreign currency risk, price risk and interest rate risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables, accrued liabilities and derivative financial instruments.

(a) Foreign currency risk
The group is composed of businesses with various functional currencies in USD, GBP and NOK. The group is exposed to foreign exchange risk for series of payments in other currencies than the functional currency, mainly related to the ratio between NOK and USD, DKK and USD, and GBP and NOK. The Group’s balance sheet includes significant assets and liabilities which are recorded in other currencies than the Group’s presentation currency. As such the group’s equity is sensitive to changes in foreign exchange rates. See Note 17 Trade receivables and other current receivables, Note 18 Restricted cash, bank deposits, cash and cash equivalents, Note 19 Financial instruments, Note 22 Asset retirement obligation, Note 23 Borrowings and Note 24 Trade payables and other payables, Note 28 Contingencies and commitments. A decrease in the closing rate of USD, GBP and DKK with 10 percent would have the following impact on financial assets, financial liabilities and equity:

NOK million	USD	GBP	DKK
Financial Assets	-8	-0	-58
Financial Liabilities	-0	-1	-59
Equity	-8	1	0

The Company considers the currency risk relating to the different financial instruments to be low, as the main financial items held in a currency other than the functional currency of the respective components is offset by positions in other components of the Group. With regards to trade receivables and payables, the Company deems the exposure risk to be immaterial.

(b) Price risk
Noreco produces and sells hydrocarbons in Denmark and are as a result exposed to changes in commodity and oil prices. As of 31 December Noreco had outstanding bond debt, listed at Oslo Stock exchange, which is recorded at fair value. A deviation from recorded fair value would directly affect the company’s recorded equity, and correspondingly the group is exposed to the development on the bond debt.

(c) Interest rate risk
The Group has no loans with floating interest rate. Loans with fixed interest rate expose the Group to risk (premium/discount) associated with changes in the market interest rate. At year-end, the group has a total of NOK 475 million (2017: NOK 161 million) in interest-bearing debt (nominal value), of which NOK 475 million (2017: NOK 161 million) is classified as current. All the Group's debt are loans with a fixed interest rate. For further information about the Group's interest-bearing debt, see Note 23.

All bank deposits (NOK 600 million) are at floating interest rates. See note 18 Restricted cash, bank deposits, cash and cash equivalents for further information about bank deposits. The Group considers the risk exposure to changes in market interest to be at an acceptable level.

Liquidity risk
The Group has certain financial commitments arising from its operations and other agreements entered into which are expected to be met by liquid assets, proceeds from external financing and cash flow from operations. The Group monitors its liquidity situation continuously to ensure it will be able to meet its financial obligations as they fall due. As per 31 December 2018, the Group had NOK 472 million of interest bearing debt falling due within 12 months. The Group has entered into agreements for financing on certain terms and conditions in which the current indebtedness will be settled or refinanced, conditional upon closing of the transaction with Shell. For further information on the financing related to the transaction see the directors report section. In case the transaction should not complete the indebtedness will fall due on 31 March 2020, the Group expects under such circumstances to be able to repay the majority of the indebtedness with the deposit payed to Shell.

Credit risk
The groups most significant credit risk arises principally from recognised receivables and insurance arrangements related to the group's operation. The credit risk arising from the production of oil, gas and NGL is considered limited, as sales during 2018 are to major oil companies with considerable financial resources. The counterparty in derivatives and insurance related issues are large international banks and insurance companies whose credit risk is considered low.

3.2 Capital risk management

The group's objectives when managing capital is to safeguard the group's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain an acceptable capital structure to reduce the cost of capital.

The group monitors the debt with the basis of cash flows, equity ratio and the gearing ratio. See further information regarding borrowings and covenants in Note 23.

3.3 Fair value estimation

The Group has certain financial instruments carried at fair value. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specified valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

Level 3: Inputs for other assets or liabilities that are not based on observable market data

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level. See Note 19 for fair value hierarchy and further information.

4 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.

4.1 Critical accounting estimates and assumptions

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.

Due to the change in the Group's assets and liabilities the uncertainty related to the applied assumptions and estimates have reduced significantly during the year. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Estimated value of financial assets
For every reporting date, an assessment is made on whether objective evidence is present that financial assets or groups of financial assets should be written down.

b) Income tax
All figures reported in the income statement and balance sheet are based on the group's tax calculations, and should be regarded as estimates until the tax for the year has been settled. Tax authorities can be of a different opinion than the company including what constitutes exploration cost and continental shelf deficiency in accordance with the Petroleum Taxation Act. See also Note 15.

c) Asset retirement obligation
Production of oil and gas is subject to statutory requirements relating to decommissioning and removal obligation once production has ceased. Provisions to cover these future decommissioning and removal expenditures must be recognised at the time the statutory requirement arises. The costs will often incur some time in the future, and there is significant uncertainty attached to the scale and complexity of the decommissioning and removal involved. Estimated future costs (estimated based on current costs inflated) are based on known decommissioning and removal technology, expected future price levels, and the expected future decommissioning and removal date, discounted to net present value using a risk-free rate adjusted for credit risk. Changes in one or more of these factors could result in changes in the decommissioning and removal liabilities; however through agreements with partners and the group structure the majority of these obligations are capped and very little uncertainty is attached to the estimates.

4.2 Critical judgements in applying the entity's accounting policies

a) Impairment testing of financial assets
The Group follows the guidance of IFRS 9 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement. See Notes 19 and 28 for further information.

5 Discontinued operations

On 2 March 2016 it was announced that Noreco had divested its Norwegian exploration activities to Det norske oljeselskap ASA (Aker BP). The transaction constituted a ceasing of all of Noreco Norway's petroleum activities, and Noreco initiated the process of claiming Exit refund during first half of 2017. During Q4 2017 Noreco Norway recieved the Exit refund and repaid NOK 393 million to the bondholders in accordance with the approved bondholder proposal of 16 March 2016 after which it was liquidated.

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

Consolidated statement of income for discontinued operation NOK million	2018	2017
Revenue	**-**	**-**
Production expenses	-	0
Exploration and evaluation expenses	-	(1)
Payroll expenses	-	(0)
Other operating expenses	(0)	(4)
Other (losses) / gains [1]	-	112
Total operating expenses	**(0)**	**107**
Operating result before depreciation and write-downs	**(0)**	**107**
Depreciation	-	(0)
Write-downs and reversals of write-downs	-	-
Net operating result	**(0)**	**107**
Financial income	-	2
Financial expenses	-	(21)
Net financial items	**(0)**	**(19)**
Result before tax	**(0)**	**88**
Income tax benefit / (expense)	-	15
Net result for the period	**(0)**	**102**
Earnings per share discontinued operation (NOK 1)		
Basic	(0,0)	14,2
Diluted	(0,0)	14,0

NOK million	2018	2017
Net cash from operating activities		472
Net cash from investing activities		-
Net cash from financing activities		(390)
Net cash flow for the period [3]	**-**	**82**

1) Excess value of the Dvalin payment after paying the bondholders their part.

6 Revenue

NOK million	2018	2017
Continuing operation		
Sale of oil	14	8
Sale of gas and NGL	2	2
Total revenue continuing operation	**16**	**10**
Total revenue discontinued operation	**-**	**-**
Total revenue	**16**	**10**

Revenue per customer, continued operation	2018	2017
INEOS E&P AS	87,5 %	77,8 %
INEOS Naturgas AS	1250 %	22,2 %
Total	**100,0 %**	**100,0 %**

7 Production Expenses

NOK million	2018	2017
Continuing operation		
Lulita	(3)	3
Siri [1)]	-	(388)
Total production expenses continuing operation	**(3)**	**(385)**
Total production expenses discontinued operation	**-**	**0**
Total production expenses	**(3)**	**(385)**

1) The ruling from Danish High Court only awarded Noreco a total compensation of NOK 171 million (USD 20,8 million) including interest of NOK 68 million (USD 8,3 million). The amount already accounted for of NOK 490 million (USD 59,7 million) was reversed while awarded amount was accounted for in 2017.

8 Exploration and Evaluation Expenses

NOK million	2018	2017
Continuing operation		
Total exploration and evaluation costs continuing operation	**-**	**-**
Total exploration and evaluation costs discontinued operation	**-**	**(1)**
Total exploration and evaluation costs	**-**	**(1)**

9 Personell Expenses and Remuneration

NOK million	2018	2017
Continuing operation		
Salaries	(12)	(12)
Social security tax	(1)	(4)
Pensions costs (note 21)	(1)	(1)
Costs relating to share-based payments (note 25)	(5)	(13)
Other personnel expenses	(0)	(0)
Total personell expenses continuing operation	**(19)**	**(29)**
Total personell expenses discontinued operation	**-**	**(0)**
Total personell expenses	**(19)**	**(30)**

Average number of employees, continuing operations	**8**	**8**
Average number of employees, discontinued operation	**-**	**-**
Average number of employees	**8**	**8**

Share based payments relate to the option program decided at the EGM in January 2016 for the benefit of the executive management. This option programme was in March 2017 extended until March 2019. During 2017 former CEO Silje Augustson exercised 100,000 of her share options resulting in high social security cost. The board of directors allocated 80,000 new share options in the second quarter of 2017. As a result of the high volatility in the share price the cost relating to share based payment increased by approx. NOK 13 million in 2017.

In 2018 part of the accrued cash settlement for the existing options in-the-money on 15 October 2018, when the options program was discontinued, exceeded the fair value of the option by NOK 4,7 million.

Compensation to key management for 2018

NOK 1 000		Remuneration	Bonus earned 2017, paid 2018	Retention bonus for 2017 paid 2018	Pension	Other remuneration 4)	Total compensation	Number of shares	Number of options
Senior executives									
Frederik Rustad 2)	Managing Director	1 680	263	-	92	13	2 048	-	-
Sjur Talstad 3)	Chief Operating Officer	518	-	-	-	3	521	-	-
Silje Hellestad	Group Acc. Man.	1 110	193	-	127	18	1 447	-	-
Former executives									
Cecilie Olesen Lindseth 1)	Managing Director	572	-	-	40	17	629	-	-
Total compensation 2018		**3 308**	**456**	**0**	**259**	**51**	**4 646**	**0**	**0**
Total compensation 2017		2 029	0	0	0	109	2 138	50 000	100 000

1) Compensation includes salary to managing director Cecilie Olesen Lindseth. She was employed until 31 March 2018.
2) Frederik Rustad was constituted managing director with effect from 3 April 2018. Compensation includes salary for the whole year.
3) Chief Operating Officer Sjur Talstad employed 15 November 2018.
4) Other remuneration relates to the benefit of free phone, free newspaper and insurance.

The Company has not issued any loans or acted as a guarantor for directors or management.

NOK 1 000	Director's fees	Total compensation 1)	Number of shares 2)	Number of options 3)	Shares purchased in 2018 4)	Period served on the board
Current Board of directors						
Riulf Rustad – Chair of the Board 5)	450	3 688	142 975	–	-	27/03/15
Lars Purlund – Board member	300	2 704	5 282	–	-	26/05/16
Marianne Lie – Board member	300	300	2 000	-	-	26/05/16
Tone Kristin Omsted – Board member	300	300	-	-	-	26/05/16
John Philip Madden III – Board member	300	300	-	-	-	26/05/16
Total compensation 2018	**1 650**	**7 292**	**150 257**	**0**	**0**	
Total compensation 2017	1 650	6 708	157 534	170 000	0	

1) Total compensation includes for the Chair and each Director payment for services rendered as consultants in accordance with consultancy agreement with a remuneration of NOK 2,000 per hour. Approved by General meeting in 2016.

2) The number of shares owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2018.

3) 3) The former share options program was discontinued on the general meeting held 8 November 2018, options in the money will be settled with cash and options out of the money will be forfeited.

4) Figures show the net increase in share holding in 2018.

5) It was approved by the general meeting on 8 November 2018 that existing options in-the-money on 15 October 2018 shall be settled by cash payment from the Company to the option holder in an amount of NOK 198 per option. This relates to 100 000 options granted in 2016 to the chairman Riulf Rustad, and the total payment to be made in 2019 will be NOK 19.8 million. The additional benefit is calculated to NOK 4.7 million as of 8 November 2018. No amount related to this is included in the total compensation in the table above.

The Company has not issued any loans or acted as a guarantor for directors or management.

Directors' fees

The annual remuneration to board members is decided on by the Shareholder's Meeting. Current benefits are;
The Chair of the Board receives an annual remuneration of NOK 450 000 and the other shareholder elected members of the board receive an annual remuneration of NOK 300 000. Certain remuneration is paid quarterly. The Board members have entered into consultancy agreements to provide services to the Company on an hourly basis at a cost of NOK 2 000 per hour.

In addition to the above, Board members are reimbursed for travel expenses and other expenses in connection with company related activities.

Board of Directors' Statement on Remuneration to the Managing Director and the Executive Officers

In accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act, the board of directors of Norwegian Energy Company ASA ("Noreco" or the "Company") has prepared a statement related to the determination of salary and other benefits for the managing director and other key executive officers.

I General on executive remuneration

The total compensation for the managing director and the executive management shall be competitive, reflect the responsibilities and effort required, reward success and not the opposite, and also ensure alignment of interest with shareholders. The remuneration for the Managing. Director and executive management includes fixed and variable elements. The fixed element consists of a base salary and other benefits, such as free mobile phone and life, accident and sickness insurance in accordance with normal practice in the oil industry. Variable elements of remuneration may be used, or other special supplementary payments may be awarded than those mentioned above if this is considered appropriate.

II Binding principles related to share price developments

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. The options shall have a vesting period of 3 years from the time of award, with 1/3 vesting for each of the three years. 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 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 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 evalu-ated 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.

III Remuneration policy for 2018

Remuneration to the managing directors and the executive management for 2018 has been in line with the board of directors' statement on remuneration to the managing director and other key executive officers as approved by the annual general meeting held in 2018.

Compensation to key management for 2017

NOK 1 000		Remuneration	Bonus earned 2016, paid 2017	Retention bonus for 2016 paid 2017	Pension	Other remuneration [1]	Total compensation [2]	Number of shares [3]	Number of options	Shares purchased in 2017 [4]
Senior executives										
Silje Christine Augustson [1]	Group Acc. Man.	1 529	-	-	-	107	1 636	50 000	-	100 000
Cecilie Olesen Lindseth [2]	Managing Dir.	500	-	-	-	2	502			
Total compensation 2017		**2 029**	**0**	**0**	**0**	**109**	**2 138**	**50 000**	**0**	**100 000**
Total compensation 2016		1 731	0	0	0	0	1 731	10 000	0	10 000

1) Compensation includes salary as CEO. Silje Augustson was employed until 30 September 2017. She excersized her option program in June and August 2017 giving a total gain on share based payment of 22.85 million NOK. No severance payment was made to former CEO when leaving the company.
2) Compensation includes salary to managing director Cecilie Olesen Lindseth employed 1 October 2017. Frederik Rustad was constituted managing director with effect from 3 April 2018.
3) Shares held as per the end of employment.

The Company has not issued any loans or acted as a guarantor for directors or management.

NOK 1 000	Director's fees	Total compensation 1)	Number of shares 2)	Number of options 3)	Shares purchased in 2017 4)	Period served on the board	
Current board of directors							
Riulf Rustad, Chair of the Board	450	3 354	142 975	100 000	-	27/03/15	-
Lars Purlund, Board member	300	2 454	12 559	70 000	-	26/05/16	-
Marianne Lie, Board member	300	300	2 000	-	-	26/05/16	-
Tone Kristin Omsted, Board member	300	300	-	-	-	26/05/16	-
John Philip Madden III, Board member	300	300	-	-	-	26/05/16	-
Total compensation 2017	**1 650**	**6 708**	**157 534**	**170 000**	**0**		
Total compensation 2016	1 538	8 200	182 534	200 000	152 329		

1) Total compensation includes payment for services rendered as consultants in accordance with consultancy agreement with a remuneration of NOK 2,000 per hour. Approved by General meeting in 2016.
2) The number of shares owned by board members is allocated between private shareholding and shareholding through companies con-trolled by board members. Number of shares owned as of 31 December 2017.
3) Total number of options according to the Company's incentive arrangement
4) Figures show the net increase in share holding in 2017

Director's fees

The annual remuneration to board members is decided on by the Shareholder's Meeting. Current benefits are;

The Chair of the Board receives an annual remuneration of NOK 450 000 and the other shareholder elected members of the board receive an annual remuneration of NOK 300 000. The remuneration is paid quarterly. The Board members have entered into consultancy agreements to provide services to the Company on an hourly basis at a cost of NOK 2 000 per hour. Also Riulf Rustad will receive 1 per cent of net insurance proceeds received by the Noreco's bondholders and/or shareholders in connection with the Siri insurance claim.

Employee elected board representatives receive an annual remuneration of NOK 150 000, and deputy director of the board receive NOK 5.000 per meeting. The remuneration is paid quarterly.

In addition to the above, Board members are reimbursed for travel expenses and other expenses in connection with company related activities.

10 Other Operating Expenses

Specification of other operating expenses

NOK million	2018	2017
Continuing operation		
Lease expenses	(3)	(1)
IT expenses	(2)	(2)
Travel expenses	(1)	(2)
Office cost	(0)	(0)
Consultant fees	(20)	(26)
Litigation fees	(127)	(0)
Other operating expenses	(2)	(2)
Total other operating expenses continuing operation	**(156)**	**(33)**
Total other operating expenses discontinued operation	**(0)**	**(4)**
Total other operating expenses	**(156)**	**(37)**

NOK million	2018	2017
Continuing operation		
Auditor’s fees	(2)	(2)
Other assurance service	-	(0)
Other non-audit assistance	(1)	(0)
Total audit fees continuing operation	**(3)**	**(2)**
Total audit fees discontinued operation	**-**	**-**
Total audit fees	**(3)**	**(2)**

11 Other (Losses) / Gains

NOK million	2018	2017
Continuing operation		
Change in value, other derivatives	-	-
Total other (losses)/gains continuing operations	**-**	**-**
Total other (losses)/gains discontinued operations	**-**	**112**
Total other (losses) / gains	**-**	**112**

12 Intangible Fixed Assets

Intangible fixed assets at 31 December 2018

NOK million	Licence and capitalised exploration expenditures	Goodwill	Total
Acquisition costs at 1 January 2018	(0)	7	7
Additions	-	-	-
Expensed exploration expenditures previously capitalised			
Disposal	-	-	-
Currency translation adjustment	-	0	0
Acquisition costs at 31 December 2018	**-**	**7**	**7**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 1 January 2018		(7)	(7)
Disposal		-	-
Currency translation adjustment		(0)	(0)
Accumulated depreciation and write-downs 31 December 2018	**-**	**(7)**	**(7)**
Book value 31 December 2018	**-**	**-**	**-**

Impairment test was not performed in 2018 for intangible assets due to all intangible non-current assets being impaired in full during 2015, and no triggers or reversal triggers have been present in 2018.

Intangible fixed assets at 31 December 2017

NOK million	Licence and capitalised exploration expenditures	Goodwill	Total
Acquisition costs at 1 January 2017	(0)	7	7
Additions	-	-	-
Expensed exploration expenditures previously capitalised	-	-	-
Disposal	-	-	-
Reclassified to assets held for sale	-	-	-
Currency translation adjustment	-	(0)	(0)
Acquisition costs at 31 December 2017	**-**	**7**	**7**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 1 January 2017		(7)	(7)
Write-downs		-	-
Disposal		-	-
Reclassified to assets held for sale		-	-
Currency translation adjustment		0	0
Accumulated depreciation and write-downs 31 December 2017	**-**	**(7)**	**(7)**
Book value 31 December 2017	**-**	**(0)**	**(0)**

13 Property, Plant and Equipment

Property, plant and equipment at 31 December 2018

NOK million	Production facilities	Office equipment and fixtures	Total
Acquisition costs at 1 January 2018	27	6	34
Additions	-	0	0
Revaluation abandonment assets	-	-	-
Disposal	-	(0)	(0)
Currency translation adjustment	2	0	2
Acquisition costs at 31 December 2018	**29**	**7**	**36**
Accumulated depreciation			
Accumulated depreciation and write downs 1 January 2018	(18)	(5)	(23)
Depreciation	(1)	(0)	(1)
Write-downs / reversal of writedowns	-	-	-
Disposal	-	0	0
Currency translation adjustment	(1)	(0)	(1)
Accumulated depreciation and write downs 31 December 2018	**(20)**	**(6)**	**(26)**
Book value 31 December 2018	**9**	**1**	**10**
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

Property, plant and equipment at 31 December 2017

NOK million	Production facilities	Office equipment and fixture	Total
Acquisition costs at 1 January 2017	47	6	53
Additions	0	1	1
Revaluation abandonment assets	(2)	-	(2)
Disposal	(16)	(0)	(16)
Currency translation adjustment	(2)	(0)	(2)
Acquisition costs at 31 December 2017	**27**	**6**	34
Accumulated depreciation			
Accumulated depreciation and write downs 1 January 2017	(34)	(6)	(40)
Depreciation	(0)	(0)	(0)
Write-downs / reversal of writedowns	(0)	-	(0)
Disposal	16	-	16
Currency translation adjustment	1	0	1
Accumulated depreciation and write downs 31 December 2017	**(18)**	**(5)**	**(23)**
Book value 31 December 2017	**10**	**1**	**11**
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

14 Financial Income and Expenses

Financial income

NOK million	2018	2017
Continuing operation		
Interest income	5	74
Change in fair value of bond debt	-	2
Foreign exchange gains [1)]	174	104
Other financial income	0	-
Total financial income continuing operation	**179**	**180**
Total financial income discontinued operation	**-**	**2**
Total financial income	**179**	**181**

Financial expenses	**2018**	**2017**
Continuing operation		
Interest expenses from bond loans [2)]	(23)	(31)
Interest expenses current liabilities	(0)	(0)
Accretion expense related to asset retirement obligations (ref note 23)	(0)	(0)
Loss on repurchase of bond	(0)	-
Foreign exchange losses [1), 2)]	(130)	(126)
Change in fair value of bond debt	-	(5)
Other financial expenses	(5)	14
Total financial expenses continuing operation	**(159)**	**(148)**
Total financial expenses discontinued operation	**-**	**(21)**
Total financial expenses	**(159)**	**(169)**

Net financial items continuing operation	**20**	**31**
Net financial items discontinued operation	**-**	**(20)**
Net financial items	**20**	**12**

1) The foreign exchange currency gains and losses is mainly related to the ARO and the restricted cash in relation to the ARO. See note 22 for further information.

2) Short term loan in foreign currency has been translated to spot rate as at 31.12.18 increasing foreign exchange losses by NOK 18,3 million since the Q4-2018 report in addition to interest expense on the same loan of NOK 7,5 million increasing the interest expense from bond loans since the Q4-2018 report .

15 Tax

Income tax NOK million	2018	2017
Income (loss) before tax total operations	(143)	(321)
Income tax benefit / (expense) total operations	0	6
Equivalent to a tax rate of	**-0,0 %**	**-1,8 %**
Income (loss) before tax continued operations	(143)	(409)
Income tax benefits / (expense) continued operations	0	(9)
Equivalent to a tax rate of	**-0,0 %**	**2,1 %**
Income (loss) before tax discontinued operations	(0)	88
Income tax benefits / (expense) discontinued operations	-	15
Equivalent to a tax rate of	**0,0 %**	**16,6 %**

The effective tax rate for the year is approximately 0 percent. Noreco operates in different tax regimes with separate tax rates. As such, the weighted average tax rate varies from year to year based on variations of the tax basis. Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities have, or are expected to have a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Tax loss carry forward 31.12.18	Offshore		Onshore	
NOK million	Recognised	Un-Recognised	Recognised	Un-Recognised
Norway (offshore 55% / onshore 23%)				
Norwegian Energy Company ASA	–	–	–	518
Altinex AS	–	–	–	–
Denmark (offshore 39% / onshore 25%)				
Noreco Denmark A/S	–	–	–	–
Noreco Oil Denmark A/S (Chapter 2, 25%)	–	572	–	–
Noreco Oil Denmark A/S (Chapter 3a, 52%)	–	5 507	–	–
Noreco Petroleum Denmark A/S (Chapter 2, 25%)	–	10	–	–
Noreco Petroleum Denmark A/S (Chapter 3a, 52%)	–	857	–	–
UK (offshore 20% / onshore 30%)				
Norwegian Energy Company (UK) Ltd.		462	–	462
Noreco Oil (UK) Ltd.	–	820	–	636
Total tax loss carry forward	**–**	**8 228**	**–**	**1 616**

Tax loss carry forwards in the Danish offshore tax regime of NOK 6 364 million and NOK 582 million has been calculated according to Chapter 3A and Chapter 2 respectively in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Deferred tax assets is recognized for tax loss carry forwards and negative temporary differences to the extent that the realization of the related tax benefit throuh future taxable profits is probable. Though an agreement with Shell to acquire 36.8% of DUC on the DCS has been signed the deal has not yet completed and the tax loss carry forward therefore has not yet been recognised in the balancesheet.

Current forecast indicate that the tax loss carry forward in Noreco Oil (UK) Ltd will not be utilised until enhanced reserves and production base have been established and an approval by the UK authorities to utilise the tax loss carry forward by new activities.

Deferred tax assets is recognised for tax loss carry forward and negative temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Reconciliation of nominal to actual tax rate

NOK million	2018	%	2017	%
Income (loss) before tax	**(143)**		**(321)**	
Calculated tax expense on profit before tax	33	23 %	77	24 %
Adjustment of calculated tax expense in foreign subsidiaries				
in relation to difference in tax rate		0 %		0 %
Petroleum tax expense		0 %		0 %
Tax effect of:				
Change in recognised deferred tax assets compared to previous years	(50)	-37 %	(49)	-15 %
Effect of change in tax rate	8	6 %	6	2 %
Permanent differences	(3)	-2 %	(15)	-5 %
Currency translation adjustments		0 %		0 %
Other items	13	9 %	(13)	-4 %
Income tax benefit	**0**	**0 %**	**6**	**-2 %**

Deferred tax liability and deferred tax asset

NOK million	2018	2017
Net operating loss deductible	9 843	9 091
Fixed assets		(229)
Current assets	311	309
Liabilities		280
Other	(0)	(23)
Basis of deferred tax liability/deferred tax asset	**10 155**	**9 427**
Net deferred tax liability (deferred tax asset)	**(2 139)**	**(1 976)**
Unrecognised deferred tax asset	2 139	1 976
Deferred tax liability/deferred tax asset recognised	**(0)**	**(0)**
Recognised deferred tax asset	0	0
Recognised deferred tax liability	(0)	(0)
Recognised deferred tax asset domestic	-	-
Recognised deferred tax asset foreign	0	0
Recognised deferred tax liability domestic	(0)	(0)
Recognised deferred tax liability foreign	-	-
Net deferred tax liability/deferred tax asset	**(0)**	**(0)**

Deferred tax asset is recognised for tax loss carry forwards and negative temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

For Noreco Oil (UK) Ltd, this implies that only loss carry forwards sufficient to offset the total estimated taxable income used in the impairment test are considered probable.

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

16 Earnings per share

Earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares in issue during the year.

NOK million	2018	2017
Profit (loss) attributable to ordinary shareholders from continuing operations	(143)	(418)
Profit (loss) attributable to ordinary shareholders from discontinued operations	(0)	102
Shares issued 1 January	7 194 730	7 094 730
Shares issued during the year		100 000
Reverse split	-	-
Shares issued at 31 December	**7 194 730**	**7 194 730**
Weighted average number of shares	**7 194 730**	**7 137 230**
Earnings per share on total operations (NOK 1)		
Earnings per share	(19,8)	(43,9)
Diluted earnings per share	(19,8)	(43,9)
Earnings per share on continued operations (NOK 1)		
Earnings per share	(19,8)	(58,1)
Diluted earnings per share	(19,8)	(58,1)
Earnings per share on discontinued operations (NOK 1)		
Earnings per share	(0,0)	14,2
Diluted earnings per share	(0,0)	14,2

1) The fair value adjustment of the bond loan related to own credit risk has in 2018 been classified through OCI instead of financial items in line with the IFRS9. The 2017 comparative figures are reclassified accordingly affecting the earnings per share in 2017 compared to the reissued Annual financial statements issued by the board of directors and managing director on 13 June 2018.

17 Trade receivables and other current receivables

NOK million	2018	2017
Current assets		
Trade receivables *	3	2
Receivables from operators relating to joint venture licences *	0	0
Underlift of oil/NGL *	10	1
Prepayments [1)]	406	0
Other receivables [2)]	52	171
Total trade receivables and other current receivables	**471**	**174**

* See note 19 for fair value disclosures

1) Initial payment to Shell of NOK 347.5 million (USD 40 million) for the contemplated acquisition of Shell Olie- og Gasudvinding Danmark B.V. transaction cost of NOK 3.9 million related to issue of Convertible Bond loan, transaction cost of NOK 10.8 million and underwriting fee of NOK 43.1 million both related to issue of RBL loan.
2) Receivable from the Siri insurance case of NOK 52.4 million.

Ageing analysis of trade receivables and other short term receivables on 31 December 2018

			Past due				
NOK 1 000	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Trade receivables	3	3	-	-	-	-	-
Total	**3**	**3**	**-**	**-**	**-**	**-**	**-**

Ageing analysis of trade receivables and other short term receivables on 31 December 2017

			Past due				
NOK 1 000	Total	Not past due	> 30 days	30-60 days	61-90 days	91-120 days	> 120 days
Trade receivables	2	2	-	-	-	–	-
Total	**2**	**2**	**-**	**-**	**-**	**-**	**-**

18 Restricted Cash, Bank Deposits, Cash and Cash Equivalents

Specification of restricted cash, bank deposits, cash and cash equivalents.

NOK million	2018	2017
Non-current assets		
Restricted cash pledged as security for abandonment obligation [1]	578	578
Other restricted cash and bank deposits	(0)	20
Total non-current restricted cash	**578**	**598**
Current assets		
Other restricted cash and bank deposits	1	2
Total current restricted cash	**1**	**2**
Unrestricted cash, bank deposits, cash equivalents	22	133
Total bank deposits	**600**	**733**

Restricted cash

The restricted cash pledged as security for abandonment obligation in Denmark is originally NOK 499 million (DKK 445 million) adjusted for interest.

1) The restricted cash is on a DKK bank account in the parent company with NOK functional currency. The corresponding DKK asset retirement obligation is recognized in the Danish subsidiary with USD functional currency. This contributes to offsetting currency gains and losses, see note 14. Any inefficiencies on this economic hedge gives a net effect on profit or loss.

19 Financial instruments

19.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows (se also note 3.3):

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.

Further disclosure on fair value measurement of the bond loan, level 3 disclosures and own credit risk disclosure are not considered necessary as the bond is valued close to par at 31 December 2017 had a maturity to March 2018.

NOK million	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements of assets				
Financial assets at fair value through profit or loss				
- Underlift of oil (ref. note 17)		10		10
Total	**-**	**10**	**-**	**10**
Liabilities				
Recurring fair value measurements of liabilities				
Financial liabilities at fair value through profit or loss				
- Bond loans			160	160
Total	**-**	**(0)**	**160**	**160**
On 31 December 2017				
Assets				
Recurring fair value measurements of assets				
Financial assets at fair value through profit or loss				
- Underlift of oil		2		2
Total	**-**	**2**	**-**	**2**
Liabilities				
Recurring fair value measurements of liabilities				
Financial liabilities at fair value through profit or loss				
- Bond loans			155	155
Total	**-**	**(0)**	**155**	**155**

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.

19.2 Financial instruments by category

As at 31 December 2018

NOK million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	461	10	471
Restricted cash	578		578
Bank deposits, cash and cash equivalents	22	0	22
Total	**1 061**	**10**	**1 072**

NOK million	Other financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loan		160	160
Other interest bearing debt	312		312
Trade payables and other current liabilities	66	(0)	66
Total	**377**	**160**	**537**

As at 31 December 2017

NOK million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	173	2	174
Restricted cash	600		600
Bank deposits, cash and cash equivalents	133	0	133
Total	**906**	**2**	**908**

NOK million	Other financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loan		155	155
Other interest bearing debt	(0)		(0)
Trade payables and other current liabilities	30	(0)	30
Total	**30**	**155**	**185**

19.3 Financial instruments — Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 December 2018:

As at 31 December 2018

NOK million	Note	Carrying amount	Fair value
Financial assets			
Trade receivables and other current assets *	17	471	471
Restricted cash *	18	578	578
Bank deposits, cash, cash equivalents and quoted shares *	18	22	22
Total		**1 072**	**1 072**
Financial liabilities			
Bonds (current and non current)	23.1	160	160
Other interest bearing debt	23.1	312	312
Trade payables and other current liabilities *	24	66	66
Total		**537**	**537**

* The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information in not required.

As at 31 December 2017

NOK million	Note	Carrying amount	Fair value
Financial assets:			
Trade receivables and other current assets *	17	174	174
Restricted cash *	18	600	600
Bank deposits, cash and cash equivalents *	18	133	133
Total		**907**	**907**
Financial liabilities:			
Bonds (current and non current)	23.1	155	155
Other interest bearing debt	23.1	(0)	(0)
Trade payables and other current liabilities *	24	30	30
Total		**185**	**185**

* The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information in not required.

20 Share Capital

The Group does not own any of its parent company shares. All shares have equal rights. All shares are fully paid.

Changes in number of shares and share capital:

NOK million	No. of shares	Share Capital
Share capital on 1 January 2017	7 094 730	71
Share issue 13 June 2017	50 000	1
Share issue 11 September 2017	50 000	1
Share capital on 31 December 2017	**7 194 730**	**72**
Share capital on 1 January 2018	7 194 730	72
Share capital on 31 December 2018	**7 194 730**	**72**

Changes in 2018

An extraordinary general meeting approved on 8 November 2018 a private placement of 15 585 635 new shares as well as a subsequent offering of up to a maximum of 1 768 648 new shares in connection with the transaction with Shell.

Existing mandates

The board of directors was in November 2018 granted a mandate by the General Meeting to increase the share capital by a total amount of up to approx. NOK 24,5 million by one or more share issues in relation to the employee incentive schemes existing at any time for employees in the group as well as strengthening of the company`s balance sheet and in relations to business opportunities. The mandate is valid until the ordinary general meeting in 2020.

Overview of shareholders at 11 April 2019:

Changes in equity	Shareholding	Ownership share	Voting share
Goldman Sachs International	3 236 430	44,98 %	44,98 %
Euroclear Bank S.A./N.V.	789 864	10,98 %	10,98 %
State Street Bank and Trust Comp	194 178	2,70 %	2,70 %
UBS AG	157 939	2,20 %	2,20 %
OUSDAL AS	142 975	1,99 %	1,99 %
Bank of America, N.A.	129 959	1,81 %	1,81 %
Goldman Sachs & Co. LLC	125 730	1,75 %	1,75 %
CREDIT SUISSE SECURITIES (USA) LTD	120 200	1,67 %	1,67 %
ALTO HOLDING AS	119 332	1,66 %	1,66 %
Citibank Europe plc	110 406	1,53 %	1,53 %
HANASAND, LIV INGER	104 000	1,45 %	1,45 %
LEIKVOLLBAKKEN AS	100 777	1,40 %	1,40 %
HANASAND, EINAR MIKAL	95 000	1,32 %	1,32 %
MOROAND AS	57 500	0,80 %	0,80 %
VELDE HOLDING AS	56 400	0,78 %	0,78 %
PERSHING LLC	51 305	0,71 %	0,71 %
REECO AS	47 630	0,66 %	0,66 %
DIRECTMARKETING INVEST AS	47 244	0,66 %	0,66 %
SIX SIS AG	43 625	0,61 %	0,61 %
SOGNNES, WALTER	39 600	0,55 %	0,55 %
Total	**5 770 094**	**80,2 %**	**80,2 %**
Other owners (ownership <0,55%)	1 424 636	19,8 %	19,8 %
Total number of shares at 11 April 2018	**7 194 730**	**100 %**	**100 %**

21 Post-Employment Benefits

Defined contribution plan

The Group only has defined contribution plans for its employees. Pension costs related to the company's defined contribution plan amounts to NOK 1 million for 2018. For 2017 the corresponding costs were NOK 1 million.

The Norwegian Companies are obliged to have occupational pension in accordance with the Norwegian act related to mandatory occupational pension. All companies meet the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

22 Asset Retirement Obligations

Specification of asset retirement obligations

NOK million	2018	2017
Balance on 1 January	593	563
Provisions made during the year	(5)	(4)
Abandonment cost paid	0	(9)
Liabilities sold	-	-
Reversed provision from disposal of assets	-	-
Currency translation	6	43
Provision made for asset retirement obligations on 31 December	**594**	**593**

Noreco has issued security on behalf of some its Danish subsidiaries for its abandonment obligations towards the Nini/Cecilie licences, currently in the form of an escrow account of NOK 578 million (DKK 434 million). The liability is in any and all circumstances limited to a maximum amount which equals the amount on the escrow account adjusted for 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 it's own preliminary assessment resulting in an increased provision of NOK 10 million in 2016. The provision has not changed in 2017 nor 2018.

The balance as per 31.12.2018 is NOK 578 million for Nini/Cecilie and NOK 16 million for Lulita.

Expected maturity

NOK million	2018	2017
1-5 years		
> 5 years	594	593
Provision made for asset retirement obligations on 31 December	**594**	**593**

23 23.1 Summary of Borrowings

NOK million Current debt	Note	2018 Principal amount	2018 Book value	2017 Principal amount	2017 Book value
NOR10 bond loan	23.3	163	160	161	155
ST Loan	23.3	312	312	-	-
Total Current debt		**475**	**471**	**161**	**155**
Total borrowings		**475**	**471**	**161**	**155**

		Cash flows	Non-cash changes			
Movements in interest-bearing liabilities	**31.12.2017**	**Receipts / payments**	**Reclass-ification**	**Value adjustment of bond**	**Payment in kind**	**31.12.2018**
NOR10 bond loan [1)]	155	(6)		3	8	160
ST loan	-	312				312
Total movement non-current interest bearing liabilities	**155**	**306**	**0**	**3**	**8**	**471**

1) The fairvalue adjustment of NOR10 was NOK 2,8 million in 2018. Payment in kind interest amounted to NOK 8 million in 2018. Noreco bought back 6.289.515 of the NOR10 bonds at par value.

23.2 The Refinancing and Subsequent Measurement

On 2 March 2015, the bondholders' meeting in NOR06, NOR10, NOR11 and NOR12 resolved to approve the company's proposal with close to unanimous support. On 3 March 2015, the general meeting also resolved to approve the proposal, also with close to unanimous support. The financial restructuring was completed on 24 March 2015, through issuance of new shares and execution of amended bond agreements, after which the amended bond loans were admitted to trading at Oslo Stock Exchange. Following a temporary period on N-OTC , the new shares were admitted to trading at Oslo Stock Exchange on 13 May 2015. (See details on borrowing below.)

NOK million

Measurement at initial recognition
Borrowings were initially recognised at fair value, net of transaction costs incurred. However, management disagreed with this method as the intention was to repay the loans at par value. The subsequent quarters have been adversely affected by a loss as the FV of the bonds increased with the improved outlook of a full repayment becoming increasingly clear. The following fair values were observed and were applied for the amended and restated bond loans at initial recognition:

NOR10	56,0 %

Subsequent measurement
The subsequent measurement depends on which category the borrowings have been classified into. The categories applicable for Noreco are either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. Noreco has designated the amended and restated bond loans at fair value through profit or loss. The following fair values were applied for the amended and restated bond loans at the end of 2018:

NOR10	97,8 %

23.3 Details on borrowing

Details on borrowings outstanding on 31 December 2018

NOR10
The bond was entered into in March 2015, with a face value of NOK 600 million and final maturity on 6 March 2018. An extension of the bond wasapproved on 1 November 2018 with a new maturity date of 6 November 2019. The bonds are callable at any time from 6 November 2018 to , but notincluding the Maturity date, at 101.5% of par value (plus accrued but unpaid interest). Upon closing of the Aquisition of Shell and issuance of the Convertible Bond the issuer wishes to call the Bonds at the curent call premium of 101.5% of par value of Bonds (plus accrued but not paid interest). If the aquisition is cancelled the Bond Agreement is ammended so the maturity date is 31 March 2020 (Fallback Maturity Date) The loan held a fixed interest rate of 6,5 % p.a. with semi-annually payments only if available cash on the proceeds account (and subject always to the company having a lawful level of equity), otherwise payment-in-kind (PIK). The fixed interest rate was amended to 10% p.a. with effect from 6 March 2018.

In third quarter 2015 Noreco repaid approx. NOK 243 million at par on NOR10.

In first quarter 2016 Noreco repaid NOK 200 million of NOR10 bonds at the fixed price of 85% of par value. The Company has later PIKed interest on the bond, remaining outstanding principal as per 31 December 2018 were NOK 163 million.

ST-Loan
On 16 October 2018, the Company entered into a short-term funding agreement with the investors participating in financing of the Transaction in order to fund part of an initial deposit payment to Shell (the "ST-Loan"). The principal of the loan is USD 35,000,000 and it carries a fixed interest at a rate of 12.0% per annum. The ST-Loan including accrued

interest will upon closing of the Transaction be rolled into the Convertible Bond at par. If completion of the Transaction does not occur, the ST-Loan shall be rolled into the current NOR10 bond issue at par and be repaid together with accrued interest in cash on 31 March 2020.

23.4 Covenants

Covenants relating to interest bearing debt
The bond constitutes senior debt of the Company and is secured on a first priority basis against certain of the Company´s Danish and English subsidiaries and their assets.The bond agreement contains special covenants which, among other, restrict the Company from taking on additional debt and declaring dividends. The agreement does not contain any financial covenants.

23.5 Payment structure

Payment structure loans after refinancing (NOK million):

Year	NOR10	ST Loan	Total 2018
2019	163	312	475
Total	**163**	**312**	**475**

Interest payments after refinancing (NOK million):

Year	NOR10	ST Loan	Total 2018
Interest rate	**10,00 %**	**12,00 %**	
2019	8	18	26
Total	**8**	**18**	**26**

Extension of the NOR10 bond loan was approved on 1 November 2018 at a bondholders meeting. New maturity date is 6 November 2019.

If completion of the Transaction does not occur, the ST Loan shall be rolled into the current NOR10 bond issue at par and be repaid together with accrued interest in cash on 31 March 2020.

23.6 Assets Pledged as Security for Interest Bearing Debt

Net book value in the consolidated accounts of assets pledged as securities

NOK million	2018	2017
Property, plant and equipment	9	10
Prepayments	348	-
Cash at bank	22	136
Total net book value	**379**	**146**

Specification of assets pledged as securities per bond/loan:

NOK million	2018	2017
Bond loan NOR10		
Property, plant and equipment	9	10
Cash at bank	22	136
Total	**31**	**146**

Specification of assets pledged as securities per bond/loan:

NOK million	2018	2017
ST Loan		
Prepayments	348	-
Total	**348**	**-**

24 Trade Payables and Other Payables

NOK million	2018	2017
Trade payable *	26	5
Accrued interest *	5	3
Employee bonus/salary accruals	21	0
Public duties payable *	(0)	1
Other current liabilities *	14	20
Total trade payable and other payables	**66**	**30**

* See note 19 for fair value disclosures

Trade and other payables held in currency

NOK million	2018	2017
NOK	59	4
DKK		
USD	2	25
GBP	5	1
EUR		
Total	**66**	**30**

25 Share-based compensation

The Group established an option program in January 2008. The purpose of the program was to establish a long-term incentive program for employees. During 2015 the options program was discontinued in Noreco Norway. All remaining options for the employees in Norway were cancelled and the remaining cost booked in Q4 2015. The options issued to Danish employees remain open active until future expiry dates.

It was approved by the general meeting on 8 November 2018 that the company's existing option scheme , as approved by the general meeting on 21 January 2016 and subsequently extended on 8 March 2017, shall discontinue. Existing options in-the-money on 15 October 2018 shall be settled by cash payment from the Company to the option holder in an amount of NOK 198 per option. All existing options out-of-the-money on 15 October 2018 shall be cancelled without any further payment from the Company to the option holder.

A liability of NOK 19,8 million for the payment of existing options in-the money is accounted for in other current liabilities. The accrued cash payment is accounted for as the repurchase of an equity interest, ie as a deduction from equity of NOK 15,1 million. The existing options in-the-money exceeded the fair value of the option by NOK 4,7 million which is accounted for through the P&L as a share-based payment expense.

Total share options and bonus shares outstanding as at 1 January 2017	**200 652**
Share options and bonus shares forfeited by employees due to the discontinuation of the options program	(25)
Share options granted in 2017	80 000
Share options excercised by former CEO	(100 000)
Outstanding at 31 December 2017	**180 627**
Share options settled or forfeited due to discontinuation of the option program	(180 627)
Outstanding at 31 December 2018	**0**

26 Guarantees

Overview of issued guarantees on 31 December 2018.

The parent company of the Group Norwegian Energy Company ASA ("Noreco") has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited to the UK Secretary of State under the terms of the licence and the company does not repay those sums on first demand, Noreco shall pay to the UK Secretary of State on demand an amount equal to all such sums. Department for Business, Energy & Industrial Strategy, declined at this time to withdraw Noreco Oil (UK)'s s29 notice with respect to the Huntington platform and pipeline. Under the forfeiture agreement Premier assumes this risk as between Premier and Noreco so, while this contingent liability to the Secretary of State would need to be recognised in any future sale of the company, Noreco Oil (UK) Limited does have recourse against Premier if it defaults in its performance.

On 6 December 2007, Noreco issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S.

On 31 December 2012, Norwegian Energy Company ASA issued a parent company guarantee on behalf of its subsidiary Noreco Norway AS. Noreco guarantees that, if any sums become payable by Noreco Norway AS to the Norwegian Secretary of State under the terms of the licences and the company does not repay those sums on first demand, Norwegian Energy Company ASA shall pay to the Norwegian Secretary of State on demand an amount equal to all such sums. Norwegian Energy Company ASA intends to apply for a withdrawal of this guarantee because Noreco Norway AS was liquidated in Q1 2018. As of 31 December 2018 the ap-proval of withdrawal has not been granted yet.

On 6 December 2013, several subsidiaries in the Noreco group entered into Co-debtor guarantees related to the refinancing of outstanding bonds at that time. These are unconditional and irrevocable Norwegian law on-demand guarantee from the Guarantor securing the Obligor's obliga-tions when they have become due under the Bond Agree-ment and any other Finance Document, including interest, cost and expenses, with payment by the Guarantor to be made within 10 Business Days of any demand, such Guaran-tees to be qualified as required by Danish law with respect to any Danish Guarantor.

27 Investment in jointly owned assets

Investment in jointly own assets are included in the accounts by the gross method (proportionally consolidated), based on the ownership share.

The Group holds the following licence equities on 31 December:

2018 Licence	Field	Country	Ownership share
1/90	Lulita	Denmark	10,0 %

28 Contingencies and commitments

Contingent liabilities
Sale of producing assets and abandonment guarantees
The Group has sold participating interest in a number of producing assets including installation, wells and other infrastructure and abandonment liabilities which existed at the completion date of that license sales in Noreco Norway AS. If the obligor failes to settle its liability for decommissioning costs, the Noreco Group could be liable for such costs.

Nini/Cecilie abandoment guarantee
Noreco was 2015 prevented from making payments for its share of production costs at the Nini and Cecilie fields, and was consequently in breach of the licence agreements. In accordance with the JOAs, the Nini and Cecilie licences were forfeitured in and the licences were taken over by the partners, whereas the debt remained with Noreco. Noreco and representatives from the bondholders reached during 2015 an agreement which entails that 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 NOK 499 million (DKK 445 million) adjusted for interest. Total provision made for asset retirement obligations reflects this.

Apart from the issues discussed above, the Group is not involved in claims from public authorities, legal claims or arbitrations that could have a significant impact on the Company's financial position or results.

29 Related Party transactions

The Noreco Group is renting offices from Riulf Rustad at a cost of NOK 84.000 pr month. The cost increased to NOK 96.000 pr month from December 2018 when the number of employees increased. The agreement is assumed to be at arm's length. In addition Noreco Group is renting an accomodation in London for the board director disposal when working with business development.

Purchase of services includes consultancy cost from the board members of NOK 7 million in addition to office rent of NOK 1 million. For further reference see Statutory Accounts 2018 for the parent company.

The Group did not have any other transactions with any other related parties during 2018. Director's fee paid to shareholders and remuneration to management is described in Note 9.

30 Supplementary oil and gas information (unaudited)

In 2014 the Group reported oil, gas and NGL reserves according to the guidelines given in the Stock Exchange circular no. 1/2013. The report was included as a separate section in the annual report in 2014.

The reserves for Lulita, are shown below using the figures from the audited 2014 Reserves Report as basis.

Total reserves as of 31.12.2018

1P+2P	Liquids (mill bbl)	Gas (bscf)	mill boe	Interest %	Net mill boe
Lulita	1,05	4,21	1,80	10,00	0,18
Total					**0,18**

31 Subsequent Events

On 15 January 2019, Noreco published an information memorandum in accordance with the Oslo Stock Exchange Continuing Obligations for listed companies section 3.5 in relation to the Transaction with Shell.

On 29 April 2019, it was announced that Noreco had received governmental approval from the Danish Energy Agency for the Transaction with Shell. Noreco will work towards completion of the Transaction by the end of May 2019, for further information see press release from the Company.

Auditors Report

KPMG AS
Forusparken 2
Postboks 57
4064 Stavanger

Telephone +47 04063
Fax
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Norwegian Energy Company ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norwegian Energy Company ASA, which comprise:

- The financial statements of the parent company Norwegian Energy Company ASA (the Company), which comprise the balance sheet as at 31 December 2018, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Norwegian Energy Company ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 30 April 2019
KPMG AS

Mads Hermansen
State Authorised Public Accountant

Board and Management Confirmation

Today, the board of directors and the managing director reviewed and approved the board of directors' report and the Norwegian Energy Company ASA consolidated and separate annual financial statements as of 31 December 2018.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2018 have been prepared in accordance with IFRSs and IFRICs as adopted by the European Union (EU), and additional Norwegian disclosure requirements in the Norwegian Accounting Act, and that

- the financial statements for Norwegian Energy Company ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards, and

- that the board of directors' report for the group and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian Accounting Standard no 16, and

- that the information presented in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and results for the period viewed in their entirety, and

- that the board of directors' report gives a true and fair view of the development, performance, financial position, principle risks and uncertainties of the Company and the group.

Oslo, 30 April 2019	**Riulf Rustad** Chair	**Tone Kristin Omsted** Board Member	**Lars Purlund** Board Member
	Marianne Lie Board Member	**John Philip Madden** Board Member	**Frederik Rustad** Managing Director

Norwegian Energy Company ASA
Nedre Vollgate 1
0158 Oslo Norway

www.noreco.com