NORECO

Norwegian Energy Company ASA
Fourth Quarter 2018

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Content

Highlights

• On 17 October 2018, Noreco announced the acquisition of Shell's Danish upstream assets 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.

• On 24 October 2018, the Danish Appeals Permission Board declined to submit Noreco's appeal to the Supreme Court in relations to the Siri Insurance Claims.

• On 30 November 2018, it was announced that none of the Joint Operating Agreement (JOA) partners in the Danish Underground Consortium (DUC) parties had invoked their pre-emption rights to purchase Shell's shares in SOGU.

Establishing Noreco as a considerable independent E&P company
Noreco announced the acquisition of Shell's Danish upstream assets through the acquisition of SOGU (the "Transaction").

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 (31.2%), Shell (36.8%), Chevron (12.0%) and Nordsøfonden (20.0%). Total recently announced the acquisition of Chevron's (12.0%) interest, which was approved by the Danish Energy Agency on 24 January 2019. DUC is operated by Total which has extensive offshore experience in the region and worldwide.

Completion of the Transaction is subject to receipt of all mandatory consents, approvals and clearances from governmental authorities, including the Danish Energy Agency; and other conditions customary for a transaction of this nature. 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. It is expected that the transaction will complete in the first half of 2019.

Outlook

• Noreco will focus on completing the Transaction with Shell and will in that regard work closely with all stakeholders and relevant authorities to ensure a successful transition.

• Noreco will work towards further enhancement of its reserves and production base.

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 year-end 2017, 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 2017 was 67 thousand barrels of oil equivalent per day (mboepd). Noreco expects to maintain strong production in the years to come and continue to evaluate strategic opportunities.

The Danish Appeals Permission Board declined to submit Noreco's appeal to the Supreme Court related to the Siri Insurance Claims, as a result 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 will receive in excess of USD 6 million.

Capital Structure
As part of the Transaction, 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 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, 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.

Group Financials

The Noreco group had **revenues from continued operations** of NOK 11 million in the fourth quarter 2018 relating to revenue from Lulita compared to NOK 4 million in the fourth quarter 2017. Total revenue for 2018 was NOK 14 million compared to NOK 10 million for 2017. A reallocation of the oil production from Lulita in 2017 was made in the last quarter of 2018 increasing the revenue in the quarter.

Production expenses from continued operations amounted to NOK 1 million in the fourth quarter of 2018 compared to NOK 389 million in the fourth quarter in 2017 due to expensing of the Siri claim after the verdict from the Eastern High Court on 4 May 2018 reversing previously accrued and expensed production costs.

Personnel expenses in fourth quarter was NOK 5 million compared to NOK 3 million in the fourth quarter in 2017 due to additional headcount. Total cost for the year 2018 is NOK 15 million compared to NOK 29 million in 2017. The share-based payment costs of 2017 are affected by the option program with no vesting period.

Other operating expenses from continued operations were a cost of NOK 134 million for the fourth quarter compared to an expense of NOK 11 million for the same quarter in 2017. Total operating costs YE 2017 is NOK 155 million compared to NOK 33 million for YE 2017. The operating expenses are influenced by consulting fees mainly in relation to new business opportunities and accrued litigation fees from pursuing the SIRI claim as well as court order legal fees.

EBITDA from continued operations (operating result before depreciation and write-downs) in the fourth quarter 2018 was a loss of NOK 140 million compared to a loss of NOK 404 million in the same quarter 2017, both years influenced by the SIRI court case and consulting fees.

Net Financial items from continued operations amounted to an income of NOK 36 million for the fourth quarter of 2018, compared to an income of NOK 88 million in the same quarter of 2017. The effect in the fourth quarter of 2018 is mainly due to currency translation. The fourth quarter 2017 was influenced by capitalization of accrued interest.

Taxes from continued operations amounted to NOK 0 million for the fourth quarter compared to a cost of NOK 20 million for the same quarter in 2017. The tax rate represents the weighted average in relation to the results from the various subsidiaries with due consideration to the actual tax position of the individual company. Reference is made to note 10 in the interim financial report for further details to the taxes this period.

Net result for the fourth quarter of 2018 is a loss of NOK 94 million, compared to a loss of NOK 331 million for the same quarter in 2017 due to litigation and legal fees of the SIRI case.

Non-current restricted cash amounts to NOK 578 million mainly relating to the balance of an escrow account of DKK 436 million set aside for future abandonment cost for Nini and Cecilie. After the settlement agreement with the partners Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount of DKK 445 million adjusted for accrued interests on the escrow account. The liability corresponding to this escrow account is included in the asset retirement obligation.

Cash and cash equivalent excluding restricted cash of NOK 579 million was NOK 22 million at year end 2018, reduced from NOK 133 million at the end of 2017 excluding restricted cash of NOK 600 million. During the year 2018 the company paid consultancy cost of NOK 30 million related to the funding and execution of the acquisition of Shell's Danish upstream assets , prepaid fees of NOK 42 million related to the RBL facility in addition to the remaining initial prepayment of Shell's Danish upstream assets of NOK 41 million (USD 5 million).

Other current assets amount to NOK 449 million by the end of 2018 due to the initial prepayment to Shell of USD 40 million for the acquisition of Shell's Danish upstream assets, the prepayment of fees related to the RBL facility of NOK 42 million and receivable from the Siri insurance case of NOK 53 million. In 2017, other current receivables reflected the Siri Insurance Claims which had been appealed.

Equity amounted to a negative NOK 30 million at the end of 2018, compared to NOK 141 million at the end of 2017. The acquisition of Shell's Danish upstream assets will partly be funded by issuing new ordinary shares through a USD 352 million private placement and USD 40 million through a partially underwritten subsequent offering.

The Company has secured USD 382 million (equivalent to NOK 3,319 billion) in equity financing through a private placement and a partially underwritten subsequent offering on certain terms and conditions in connection with the Transaction. As a result, the equity is expected to increase significantly for the Group in in the first half of 2019. The equity in the parent company remains strong with an Equity ratio above 33% at 31 December 2018.

Asset retirement obligations amounted to NOK 594 million at the end of the quarter compared to NOK 593 million at the end of 2017. The asset retirement obligation is secured through an Escrow account of NOK 578 million.

Interest-bearing debt related to the bond loand NOR10 had a book value NOK 160 million (principal amount NOK 163 million) at the end of fourth quarter 2018, compared to a book value of NOK 155 million (principal amount NOK 161 million) at the end of 2017. At the end of the quarter the NOR10 bond was valued at 97,8% of principal amount. 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. The loan is presented as other interest-bearing debt.

Risks and Uncertainties

Investment in Noreco involves risks and uncertainties as described in the board of director's report and note 3 to the annual report 2017. The most significant risks Noreco is facing for the next twelve months are related to currency exchange rates and transaction risk.

Governance and Organisation

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

Condensed Consolidated Statement of Comprehensive Income

All figures in NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	2017*
Continued operations					
Revenue	3	11	4	14	10
Total revenues		**11**	**4**	**14**	**10**
Production expenses	4	(1)	(389)	(3)	(386)
Exploration and evaluation expenses	5	–	–	–	–
Personnel expenses	6	(5)	(3)	(15)	(29)
Other operating expenses	7	(134)	(11)	(155)	(33)
Other (losses) / gains	8	–	–	–	–
Total operating expenses		**(140)**	**(404)**	**(172)**	**(448)**
Operating result before depreciation and write-downs (EBITDA)		**(129)**	**(400)**	**(158)**	**(439)**
Depreciation	12	(1)	(1)	(1)	(1)
Net operating result (EBIT)		**(130)**	**(399)**	**(159)**	**(440)**
Financial income	9	70	103	154	180
Financial expenses	9	(34)	(15)	(131)	(149)
Net financial items **		**36**	**88**	**23**	**31**
Result before tax (EBT)		**(94)**	**(311)**	**(136)**	**(409)**
Income tax benefit / (expense)	10	(0)	(20)	0	(9)
Net result for the period continued operation		**(94)**	**(331)**	**(136)**	**(418)**
Discontinued operation					
Profit (loss) from discontinued operation (net of income tax)	2	(0)	(0)	(2)	102
Net result for the period		**(94)**	**(331)**	**(138)**	**(316)**
Other comprehensive income (net of tax) **					
Items to be reclassified to profit or loss in subsequent periods					
Changes in fair value of bond debt		(6)	–	(3)	(17)
Currency translation adjustment		(4)	17	(4)	20
Total other comprehensive income for the period (net of tax)		**(10)**	**17**	**(7)**	**3**
Total comprehensive income for the period (net of tax)		**(104)**	**(315)**	**(145)**	**(312)**
Earnings per share (NOK 1)					
Basic	19	(13,0)	(46,0)	(19,2)	(46,2)
Diluted	19	(13,0)	(46,0)	(19,2)	(46,2)
Earnings per share continuing operation (NOK 1)					
Basic	19	(13,0)	(46,0)	(18,9)	(60,4)
Diluted	19	(13,0)	(46,0)	(18,9)	(60,4)

*) The financial statements for the year ended 2017 have been reissued compared to the Annual financial statements approved by the Board of Directors on 30 April 2018. The reissued Annual financial statements were issued by the Board of Directors and Managing Director on 13 June 2018, and approved by the General meeting on 28 June 2018. In the reissued Annual financial statements, previously booked Siri claim of USD 59 million has been replaced by the awarded amount from the latest verdict of 4 May 2018; USD 20,8 million including interest. Both the expensing of the previously booked Siri claim and the new awarded amount is booked as production expenses apart from interest booked through financial income. These changes are presented in the figures for the year 2017.

**) Even though the Company have a perfect economical hedge for the ARO (asset retirement obligation), IFRS9 does not permit hedge accounting when parent and subsidiary have different functional currency. As a consequence the currency translation related to the ARO has been reclassified as financial items instead of through OCI in line with IFRS9. Q4 2017 and YE 2017 figures are changed accordingly. The effect of Net result is an increase of NOK 35,2 million for Q4 2018 and an increase of NOK 34,0 million for the YTD 2018. The comparative effects of the currency translation related to the ARO is for Q4 2017 a decrease of NOK 2,8 million and a decrease of NOK 26,5 million for YTD 2017. The fair value adjustment of the bond loan related to own credit risk has this quarter and YTD along with the Q4 2017 and YE 2017 fair value adjustment been classified through OCI instead of financial items in line with the IFRS9.

Condensed Consolidated Statement of Financial Position

All figures in NOK million	Note	31.12.18	31.12.17
Non-current assets			
Deferred tax assets	10	0	–
Property, plant and equipment	11	10	11
Restricted cash	13, 16	578	598
Receivables	12	–	–
Total non-current assets		**588**	**609**
Current assets			
Tax refund	10	0	–
Trade receivables and other current assets	12, 16	449	174
Restricted cash	13, 16	1	2
Bank deposits, cash and cash equivalents	13, 16	22	133
Total current assets		**472**	**310**
Total assets		**1 060**	**919**
Equity [1)]			
Share capital	18	72	72
Other equity		(102)	69
Total equity		**(30)**	**141**
Non-current liabilities			
Deferred tax	10	0	0
Asset retirement obligations	17	594	593
Other interest bearing debt	14, 16	(0)	(0)
Total non-current liabilities		**594**	**593**
Current liabilities			
Bond loan	14,16	160	155
Other interest bearing debt	14,16	286	(0)
Trade payables and other current liabilities	15,16	49	30
Total current liabilities		**495**	**185**
Total liabilities		**1 089**	**778**
Total equity and liabilities		**1 060**	**919**

1) The Company has secured USD 382 million (equivalent to NOK 3,319 billion) in equity financing through a private placement and a partially underwritten subsequent offering on certain terms and conditions in connection with the Transaction. As a result, the equity is expected to increase significantly for the Group in in the first half of 2019. The equity in the parent company remains strong with an Equity ratio above 33%.

Condensed Consolidated Statement of Changes in Equity

All figures in NOK million	Note	Share capital	Currency translation fund	Other equity	Total equity
2017					
Equity on 01.01.2017		**71**	**473**	**(107)**	**437**
Net result for the period			–	(316)	(316)
Other comprehensive income for the period (net of tax)					
Change in fair value of bond debt			–	(17)	(17)
Currency translation adjustments		–	20	–	20
Total comprehensive income for the period (net of tax)		**–**	**20**	**(332)**	**(312)**
Transactions with owners					
Proceeds from share issued	18	1	–	3	4
Share-based incentive program		–	–	13	13
Total transactions with owners for the period		**1**	**–**	**16**	**17**
Equity on 31.12.2017		**72**	**493**	**(424)**	**141**
2018					
Equity on 01.01.2018		**72**	**493**	**(424)**	**141**
Net result for the period			–	(138)	(138)
Other comprehensive income for the period (net of tax)					
Change in fair value of bond debt			–	(3)	(3)
Currency translation adjustments		–	(4)	–	(4)
Total comprehensive income for the period (net of tax)		**–**	**(4)**	**(3)**	**(7)**
Transactions with owners					
Proceeds from share issued	18	–	–	0	0
Transaction cost equity issue		–	–	(27)	(27)
Total transactions with owners for the period		**–**	**–**	**(27)**	**(27)**
Equity on 31.12.18 [1]		**72**	**489**	**(592)**	**(30)**

1) The Company has secured USD 382 million (equivalent to NOK 3,319 billion) in equity financing through a private placement and a partially underwritten subsequent offering on certain terms and conditions in connection with the Transaction. As a result, the equity is expected to increase significantly for the Group in in the first half of 2019. The equity in the parent company remains strong with an Equity ratio above 33%.

Condensed Consolidated Statement of Cash Flows

All figures in NOK million	Q4 2018	Q4 2017	YTD Q4 2018	2017
Net result for the period	(94)	(331)	(138)	(316)
Income tax benfit or expense for total operations	0	20	(0)	(6)
Adjustments to reconcile net result before tax to net cash flows from operating activities:				
Tax Refundable		401		401
Depreciation	1	–	1	(0)
Share-based payments expenses		–	–	13
Change in fair value of bonds	(6)	–	(3)	(17)
Effect of changes in exchange rates	(4)	17	(4)	20
Paid abandonment cost				(9)
Payment in kind interest with no cash effect	8	–	8	36
Reversal of Siri Claim		343		343
Changes in working capital				
Changes in trade receivable	51	3	(52)	1
Changes in trade payables	29	(55)	19	(37)
Changes in other current balance sheet items	(25)	(5)	5	10
Net cash flow from operations	**(39)**	**392**	**(59)**	**438**
Cash flows from investing activities				
Purchase of tangible assets	(327)		(327)	1
Net cash flow used in investing activities	**(327)**	**–**	**(327)**	**1**
Cash flows from financing activities				
Issue of share capital			0	4
Proceeds from short-term loan	286		286	
Repayment of bonds		(393)		(393)
Repurchase own bonds			(6)	
Interest paid			(5)	(5)
Net cash flow from (used) in financing activities	**286**	**(393)**	**274**	**(394)**
Net change in cash and cash equivalents	**(80)**	**(1)**	**(112)**	**45**
Cash and cash equivalents at the beginning of the period	102	129	133	89
Cash and cash equivalents at end of the quarter	**22**	**128**	**22**	**133**

Notes

1 Accounting Principles

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

Following the restructuring in March 2015 Noreco has been working to enhance its reserves and production base, with specific focus on Denmark and the United Kingdom.

Basis for preparation
The interim condensed consolidated financial statements (the interim financial statements) for the fourth quarter 2018 comprise Norwegian Energy Company ASA (Noreco) and its subsidiaries. These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial statements do not include all of the information and disclosures required to represent a complete set of financial statements, and these interim financial statements should be read in conjunction with the annual financial statements. The interim financial statements are unaudited.

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

The interim financial statements for the fourth quarter of 2018 were authorised for issue by the board of directors on 21 of February 2018.

Going concern
The board of directors confirms that the interim financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these interim financial statements. The financial solidity and the company's 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 letters of 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.

Reference to summary of significant accounting policies
With effect from 1 January 2018, the Group has implemented IFRS 9 Financial Instruments and IFRS 15 Revenues from contracts with customers. Please refer to the annual financial statements for 2017 for further description. These standards are implemented at 1 January 2018 without changing comparative figures for 2017 as far as possible. As explained in the annual financial statements for 2017, these standards had no net effect on equity at 1 January 2018. The only notable effect is that according to IFRS 9, the change in fair value of the bond loan that relates to the company's own credit risk shall be recognised in other comprehensive income instead of previously through profit or loss. The comparative figures in the condensed consolidated statements of comprehensive income for 2017 have been restated.

Apart from this, these interim financial statements are prepared using the same accounting principles as the annual financial statements for 2017. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2017.

Borrowings
Borrowings are intitially recognised 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 profit or loss 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 or loss but has from the 1 January 2018 presented the fair value of the bond through OCI according to the IFRS 9. The change in fair value due to own credit risk of bond for 2017 and Q4 2017 has comparatively been presented through OCI in this Q4 2018 report .

IFRS 9 Financial instruments
IFRS 9, effective from 1 January 2018, 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 forwardlooking impairment model. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value

through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

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 loan where the change in fair value due to own credit risk is recognized through OCI according to IFRS 9 (previously recognized through profit and loss according to IAS 39). This will not have any effect on total equity. Comparative figures for 2017 has been restated accordingly through OCI, see note 9 for further details.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except that the group has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. The group use 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 have minor impact on the financial statements of the group and the group does not have any material effect on equity in relation to the standard at implementation 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. 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 replaced previous IFRS requirements in IAS 11 Construction Contracts and IAS 18 Revenue, as well as supplemental IFRIC guidance. 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. The changes in over/under lift balances currently included in revenues under the Group's entitlement method do not meet the IFRS 15 definition of revenue from contracts with customers, but will still be included as a form of revenue. The Group has not had any major impact on earnings at adoption of IFRS 15 in 2018.

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 statement of financial position, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the shorter of each contract's term and the assets' useful life. The standard consequently implies a significant change in lessees' accounting for leases currently defined as operating leases under IAS 17, both with regard to impact on the statement of financial position 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 recognized. The standard requires adoption either on a full retrospective basis, or retrospectively with the cumulative effect of initially recognizing the standard as an adjustment to retained earnings at the date of initial application, and if so with a number of practical expedients in transitioning existing leases at the time of initial application. The standard was endorsed in November 2017 by the EU. The Noreco Group currently leases some office equipment and premises, currently classified as operating leases. Due to the immaterial size of the current lease and the duration of the contracts, IFRS 16 will not have a material impact on the Consolidated statement of financial position or statement of income for 2018.

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

2 Discontinued Operations

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. Noreco initiated during the winter a financial restructuring process and a restructuring proposal was presented in February 2015. The restructuring proposal entailed that Noreco would be converting NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortizations except final maturity in three years, but with "cash sweep" if cash should become available.

The new strategy entailed re-payment of bonds whenever the cash flow allowed it, and secure a return of investment to the shareholders. On the 2 March 2016 it was announced that the entire remaining E&P operation in Norway was sold to Det norske oljeselskap ASA (now 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 roposal of 16 March 2016.

NOK million	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Revenue	**–**	**–**	**–**	**–**
Production expenses	(0)	0	(0)	0
Exploration and evaluation expenses	–	0	–	(1)
Payroll expenses	–	(0)	(0)	(0)
Other operating expenses	–	(0)	(1)	(4)
Other (losses) / gains	–	–	-	112
Total operating expenses	**(0)**	**(0)**	**(1)**	**107**
Operating result before depreciation and write-downs (EBITDA)	**(0)**	**(0)**	**(1)**	**107**
Depreciation	–	–	(0)	(0)
Write-downs and reversals of write-downs	–	–	–	(0)
Net operating result (EBIT)	**(0)**	**(0)**	**(1)**	**107**
Financial income	–	0	1	2
Financial expenses	–	–	(2)	(21)
Net financial items	**–**	**1**	**(0)**	**2**
Result before tax (EBT)	**(0)**	**0**	**(2)**	**88**
Income tax benefit / (expense)	–	–	–	15
Net result for the period	**(0)**	**(0)**	**(2)**	**102**

3 Revenue

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Sale of oil		10	3	12	7
Sale of gas and NGL		1	1	2	2
Total Revenue continued operations		**11**	**4**	**14**	**10**
Total Revenue discontinued operations		**–**	**–**	**–**	**-**
Total Revenue		**11**	**4**	**14**	**10**

4 Production Expenses

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Lulita		(1)	(389)	(3)	(386)
Total production expenses continued operations		**(1)**	**(389)**	**(3)**	**(386)**
Total production expenses discontinued operations		**–**	**–**	**–**	**0**
Total production expenses		**(1)**	**(389)**	**(3)**	**(386)**

5 Exploration and Evaluation Expenses

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Acquisition of seismic data, analysis and general G&G costs		–	–	–	–
Other exploration and evaluation costs		–	–	–	-0
Total exploration and evaluation costs continued operations		**–**	**–**	**–**	**-0**
Total exploration and evaluation costs discontinued operations		**–**	**0**	**–**	**(1)**
Total exploration and evaluation costs		**–**	**0**	**–**	**(1)**

6 Payroll Expenses

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Salaries		(4)	(3)	(12)	(12)
Social security tax		(0)	(0)	(1)	(4)
Pension costs		(0)	(0)	(1)	(1)
Costs relating to share-based payments		–	–	–	(13)
Other personnel expenses		(0)	(0)	(0)	(0)
Total personnel expenses continued operations		**(5)**	**(3)**	**(15)**	**(29)**
Total personnel expenses discontinued operations		**(0)**	**(0)**	**(0)**	**(0)**
Total personnel expenses		**(5)**	**(3)**	**(15)**	**(30)**
Average number of employees, continued operations		8	8	8	8
Average number of employees, discontinued operations		–	–	–	–
Average number of employees		8	8	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. The total expense of the extended option program was recognized in 2017, due to no vesting period in the program. There hasn't been any additional expense in relation to the program for 2018.

7 Other Operating Expenses

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Premises		(1)	(0)	(2)	(2)
IT expenses		(1)	(0)	(3)	(2)
Travel expenses		(1)	(1)	(1)	(2)
Office cost		(0)	(0)	(0)	(0)
Consultant fees		(4)	(9)	(20)	(26)
Litigation fees		(127)	(0)	(127)	(0)
Other operating expenses		(1)	(0)	(2)	2
Total other operating expenses continued operations		**(134)**	**(11)**	**(155)**	**33**
Total other operating expenses discontinued operations	**2**	**–**	**(0)**	**(1)**	**(4)**
Total other operating expenses		**(134)**	**(11)**	**(156)**	**37**

8 Other (Losses) / Gains

NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Total other (losses)/gains continued operations		–	–	–	–
Total other (losses)/gains discontinued operations	2	–	–	–	112
Total other (losses) / gains		–	–	–	112

9 Financial Income and Expenses

Financial Income NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Interest income		2	71	5	74
Foreign exchange gains [1)]		68	32	148	104
Total financial income continued operations		**70**	**103**	**154**	**180**
Total financial income discontinued operations		–	**0**	**1**	**2**
Total financial income	**2**	**70**	**103**	**155**	**182**

Financial Expenses NOK million	Note	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Continued operations					
Interest expense from bond loans		(4)	0	(15)	(31)
Interest expenses current liabilities		(0)	(0)	(0)	(0)
Accretion expense related to asset retirement obligations		(0)	(0)	(0)	(0)
Foreign exchange losses [1)]		(28)	(15)	(110)	(126)
Change in fair value of bond debt [1)]		–	–	–	–
Other financial expenses		(2)	0	(5)	9
Total financial expenses continued operations		**(34)**	**(15)**	**(131)**	**(149)**
Total financial expenses discontinued operations	**2**	–	-	**(2)**	**(21)**
Total financial expenses		**(34)**	**(15)**	**(133)**	**(169)**
Net financial items continued operation		**36**	**88**	**23**	**31**
Net financial items discontinued operation	**2**	–	**0**	**(0)**	**(19)**
Net financial items		**36**	**89**	**22**	**13**

1) The Group has in 2017 determined that hedge accounting could not be used according to IAS39, and has corrected this by decreasing financial expenses by NOK 2,8 million for Q4 2017 and NOK 26,5 million in YTD 2017. The comparative increase in financial expense for 2018 is NOK 35.2 million for Q4 2018 and NOK 34.0 million for YTD 2018.

The foreign exchange currency gains and losses is mainly related to the ARO and the restricted cash in relation to the ARO. The fair value adjustment of the bond loan related to own credit risk has this quarter and YTD along with the Q4 2017 and YTD 2017 fair value adjustment been classified through OCI instead of financial items in line with IFRS9. See OCI in the Condensed Consolidated Statement of Comprehensive Income for details of change.

10 Tax

Income Tax NOK million	Q4 2018	Q4 2017	YTD Q4 2018	YTD Q4 2017
Income (loss) before tax total operations	(94)	(311)	(138)	(338)
Income tax benefit / (expense) total operations	(0)	(20)	(0)	(9)
Equivalent to a tax rate of	-0.0 %	67.8 %	0.2 %	-458.6 %

The effective tax rate for the quarter is approximately 0 percent. Noreco operates in different tax regimes with separate tax rates. As such, the weighted average tax rate varies from quarter to quarter based on variations of the tax basis.

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

Tax loss carry forward 31.12.18	Offshore		Onshore	
NOK million	Recognised	Un-Recognised	Recognised	Un-Recognised
Norway (offshore 55% / onshore 23%)				
Norwegian Energy Company ASA	–	–	–	529
Altinex AS	–	–	–	–
Denmark (offshore 52% / onshore 25%)				
Noreco Denmark A/S	–	–	–	–
Noreco Oil Denmark A/S (Chapter 2, 25%)	–	565	–	–
Noreco Oil Denmark A/S (Chapter 3a, 52%)	–	5 500	–	–
Noreco Petroleum Denmark A/S (Chapter 2, 25%)	–	9	–	–
Noreco Petroleum Denmark A/S (Chapter 3a, 52%)	–	859	–	–
UK (offshore 30% / onshore 10%)				
Norwegian Energy Company (UK) Ltd.		462	–	462
Noreco Oil (UK) Ltd.	–	820	–	636
Total tax loss carry forward	**–**	**8 215**	**–**	**1 627**

Tax loss carry forwards in the Danish offshore tax regime of NOK 6 356 million and NOK 574 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 balance sheet.

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.

11 Property, Plant and Equipment

NOK million	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.18	11	–	11
Additions	–	0	0
Disposals	–	(0)	(0)
Currency translation adjustment	0	0	0
Acquisition costs 31.12.18	**11**	**0**	**11**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.18	0	0	0
Depreciation	(1)	(0)	(1)
Currency translation adjustment	(0)	(0)	(0)
Accumulated depreciation and write-downs 31.12.18	**(1)**	**(0)**	**(1)**
Book value 31.12.18	**10**	**(0)**	**10**

12 Non-Current Receivables, Trade Receivables and Other Current Assets

NOK million	31.12.18	31.12.17
Non-current assets		
Other receivables	–	–
Total non-current receivables	**–**	**–**
Current assets		
Tax receivables	0	–
Trade receivables	3	2
Receivables from operators relating to joint venture licences	0	0
Underlift of oil/NGL	9	1
Prepayments *	327	0
Other receivables **	110	171
Total trade receivables and other current receivables	**449**	**174**

*) Initial payment to Shell of USD 40 million (NOK 327 million) for the acquisition of Shell's Danish upstream assets.

**) Receivable from the Siri insurance case of NOK 53 million in addition to transaction cost related to issue of Bond loan of NOK 3,9 million and the RBL of NOK 53,1 million.

13 Restricted Cash, Bank Deposits, Cash and Cash Equivalents

Restricted Cash, Bank Deposits, Cash and Cash Equivalents NOK million	31.12.18	31.12.17
Non-current assets		
Restricted cash pledged as security for abandonment obligation in Denmark [1)]	559	579
Other restricted cash and bank deposits	19	19
Total non-current restricted cash	**578**	**598**
Current assets		
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	1	2
Total current restricted cash	**1**	**2**
Unrestricted cash, bank deposits, cash equivalents	22	133
Total bank deposits	**600**	**733**

1) Any currency exposure in the subsidiary connected with the ARO of DKK 436 million, has been hedged in the group accounts by a pledged bank account containing the same amount in DKK in the parent company. Any currency gains and losses from this has however been recognized as financial income/expense in line with IFRS 9 due to different functional currency in the parent and subsidiary.

14 Borrowings

14.1 Principal Amounts and Book Values

Non-Current Debt NOK million	31.12.18 Principal amount	31.12.18 Book value	31.12.17 Principal amount	31.12.17 Book value
NOR10	–	–	–	–
Total non-current bonds	**–**	**–**	**–**	**–**

Current Debt NOK million	31.12.18 Principal amount	31.12.18 Book value	31.12.17 Principal amount	31.12.17 Book value
Deposit loan [1]	286	286		
NOR10 [2]	163	160	161	155
Total current bonds	**449**	**446**	**161**	**155**
Total borrowings	**449**	**446**	**161**	**155**

1) 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.
2) The change in principal amount from YE 2017 are repurchase of own bonds and accrued interest.

14.2 Subsequent Measurement and Events in Fourth Quarter

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

NOR10	**97.8 %**

It is assumed that the change in fair value in the Q4 2018, YTD 2018 as well as Q4 2017, YTD 2017 and YE 2017 in its entirety is attributable to change in own credit risk and in line with IFRS 9 booked through the OCI.

15 Trade Payables and Other Current Liabilities

NOK million	31.12.18	31.12.17
Trade payable	24	5
Liabilities to operators relating to joint venture licences	(0)	0
Overlift of oil/NGL	(0)	(0)
Accrued interest	5	3
Salary accruals	1	0
Public duties payable	(0)	1
Other current liabilities	21	20
Total other current liabilities	**49**	**30**

16 Financial Instruments

16.1 Fair Value Hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.
The different levels have been defined as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 Inputs for the asset or liability that are not based on observable market data.

On 31.12.18

NOK million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Underlift of oil		9		9
Total assets	**–**	**9**	**–**	**9**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives		–		–
- Bond loans			160	160
Total liabilities	**–**	**–**	**160**	**160**

On 31.12.2017

NOK million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
- Quoted shares		–		–
- Underlift of oil		1		1
Total assets	**–**	**1**	**–**	**1**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives		–		–
- Bond loans			155	155
Total liabilities	**–**	**–**	**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.

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

16.2 Financial Instruments by Category

On 31.12.2018 NOK million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	449		449
Restricted cash	578		578
Bank deposits, cash, cash equivalents and quoted shares	22	0	22
Total	**1 049**	**0**	**1 049**

NOK million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bonds		160	160
Other interest bearing debt [1)]	286		286
Trade payables and other current liabilities	49	–	49
Total	**335**	**160**	**495**

1) 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.

On 31.12.2017 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		133
Total	**906**	**2**	**908**

NOK million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bonds	0	155	155
Trade payables and other current liabilities	30	(0)	30
Total	**30**	**155**	**185**

16.3 Financial Instruments — Fair Values

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

NOK million	Carrying Amount	Fair Value
Financial assets		
Trade receivables and other current assets	449	449
Restricted cash	578	578
Bank deposits, cash, cash equivalents and quoted shares	22	22
Total	**1 049**	**1 049**
Financial liabilities		
Bond loans	160	160
Other interest bearing debt [1)]	286	286
Trade payables and other current liabilities	49	49
Total	**495**	**495**

1) 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.

17 Asset Retirement Obligations

NOK million	31.12.18	31.12.17
Balance on 01.01.	593	563
Provisions and change of estimates made during the year	(5)	(4)
Accretion expense		(9)
Abandonment cost paid	(0)	–
Currency translation	6	43
Total provision made for asset retirement obligations	**594**	**593**

As part of the overall restructuring in 2015, an agreement was reached that entails that the partners will take over Noreco's share of the Nini and Cecilie licences. The restricted cash account of DKK 436 million, set aside for future abandonment costs for Nini and Cecilie will not be transferred. The Danish part of Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount which equals the restricted cash account. Total provision made for asset retirement obligations reflects this.

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

18 Shares and Share Capital

NOK million	No. of Shares	Share Capital
31 December 2017	7 194 730	72
Change in share capital in 2018		
Number of shares and share capital 31 December 2018	7 194 730	72

19 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.

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Financial Calendar 2019

22 February	Q4 2018 Report
23 April	Annual Report 2018
15 May	Annual General Meeting
22 May	Q1 2019 Report
21 August	Q2 2019 Report
20 November	Q3 2019 Report

Board of Directors Noreco

Riulf Rustad	Chair
Lars Purlund	
Marianne Lie	
John Madden	
Tone Kristin Omsted	

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

Quarterly publications

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