# FOURTH QUARTER
2014

# REPORT FOR THE FOURTH QUARTER 2014

NORWEGIAN ENERGY COMPANY ASA

## RESTRUCTURING EFFORTS

- The fourth quarter was marked by restructuring efforts, which where further accelerated after Noreco informed that it would not be able to make the scheduled bond interest payment at the due date, leading to default on all outstanding bonds.
- The company has remained in close dialogue with its stakeholders, and no enforcement actions by the financial creditors have been initiated.
- In December 2014 the board presented a restructuring proposal with the intention to reach an agreement with bondholders and shareholders about a new financial platform for the company.
- In February 2015 a revised restructuring proposal was presented. This proposal reflects feedback received from the company's key financial stakeholders. The revised restructuring proposal is now pending approval in bondholders' meetings in all four outstanding bond loans on 2 March, and by an extraordinary general meeting scheduled for 3 March.
- The current proposal entails that Noreco will be converting approx. NOK 1.9 billion (excluding interests) of bond debt to equity, with approx. NOK 1.2 billion of bond debt remaining on amended terms.
- If approved the proposed solution will strengthen the financial solidity of the company and establish a capital structure that is more aligned with the company's debt servicing ability under a low oil price scenario, while at the same time retaining potential upside related to oil price and in the company's various assets.
- An improved financial structure will further enable the company to continue the efforts for refocusing its strategy going forward, towards cost reductions and mitigating actions to improve cash liquidity and maximising the value of existing assets.

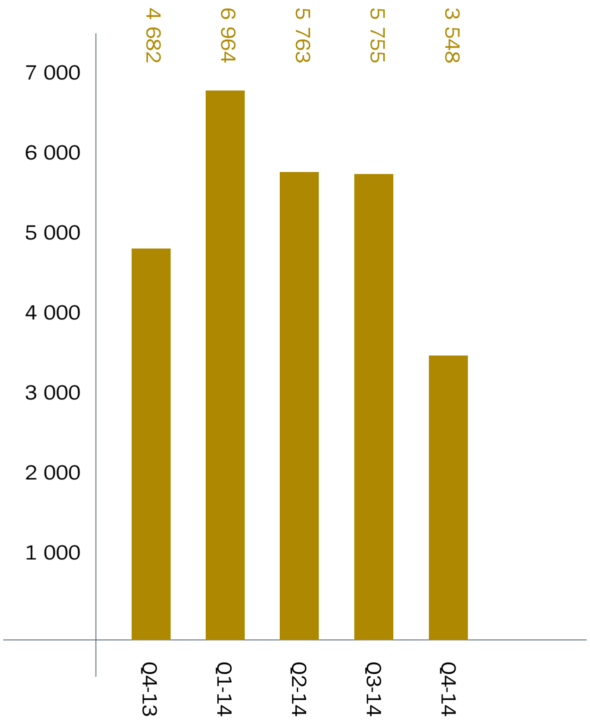
## KEY OPERATIONALS AND FINANCIALS FOR THE QUARTER

- Noreco's production in the fourth quarter 2014 was 3 548 barrels of oil equivalents (boepd) and realised oil price was USD 65.2 per boe, corresponding to USD 68.3 per barrel of oil. This resulted in revenues of NOK 145 million in the fourth quarter. Production in the quarter was influenced by low output from the Huntington field.
- The Xana exploration well in Denmark was spudded in the middle of December. Drilling continues in the first quarter 2015.
- Operating result before depreciation and write-downs (EBITDA) was negative NOK 28 million in the fourth quarter. The net result after tax was negative at NOK 1 746 million and was impacted by several significant items. Total impairments amounted to NOK 570 million after tax, which include NOK 241 million in write-downs after tax on Huntington and NOK 292 million in write-downs after tax on Siri Fairway (Cecilie and Nini). Deferred tax assets in Denmark and the UK have also impacted the net results this quarter by NOK 618 million. Financial expenses include NOK 510 million, which has been recognised due to the bond loans being in default.

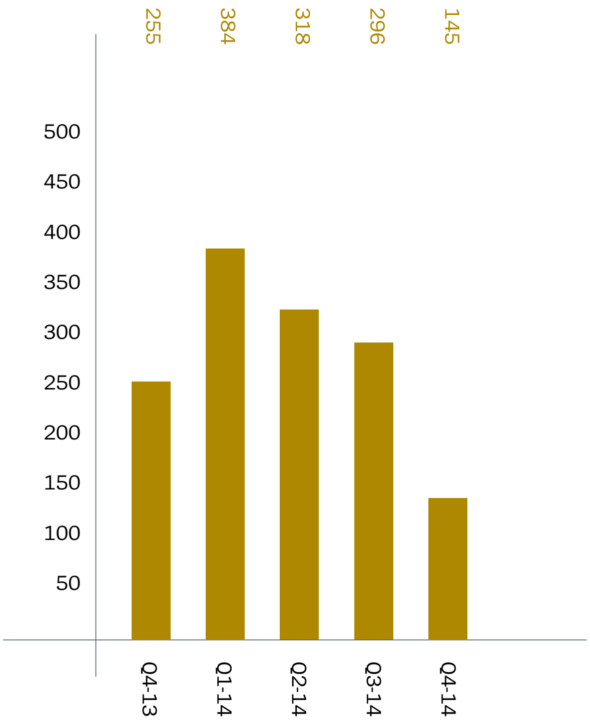
## KEY FIGURES

| | Q4-14 | Q3-14 | Q2-14 | Q1-14 | Q4-13 |
|---|---|---|---|---|---|
| **Net realised oil price** *(USD/boe)* | 65.2 | 89.0 | 101.5 | 100.7 | 97.8 |
| **EBITDA** *(NOK million)* | (28.3) | (556.4) | (29.2) | 166.1 | 55.5 |
| **Net results** *(NOK million)* | (1 745.9) | (1 101.2) | (0.1) | (64.5) | 338.6 |
| **Cash flow from operations** *(NOK million)* | 295.9 | 15.4 | 354.2 | 64.6 | 1 310.8 |
| **Total assets** *(NOK billion)* | 3.6 | 4.9 | 6.5 | 6.2 | 6.2 |

**Production** *(boepd)*




**Revenue** *(NOK million)*




## HEALTH, SAFETY, ENVIRONMENT AND QUALITY (HSEQ)

No serious HSE incidents have occurred in the company in the fourth quarter 2014. Noreco did not operate any drilling operations in the quarter. Ongoing HSEQ activities include follow up of drilling operations where Noreco is licensee.

## PRODUCING FIELDS

The Noreco group's average production in the fourth quarter 2014 was 3 548 boepd. Realised oil price was USD 65.2 per boe compared to USD 89.0 per boe in the third quarter 2014.

Noreco's share of production from the **Huntington** field for the fourth quarter 2014 was 616 boepd. The production was significantly lower than expected due to low regularity on the gas export system CATS (Central Area Transmission System). The CATS restrictions were imposed as a consequence of maintenance and an incident on the CATS Riser Platform. According to the operator, this platform could resume operations in March 2015 at the earliest.

The production from **Oselvar** was fairly stable, and the average production in the fourth quarter was 497 boepd to Noreco.

Production from the **Nini** field (comprising of Nini and Nini East) was 2 012 boepd net to Noreco in the fourth quarter 2014 and production from the **Cecilie** field was 286 boepd net to Noreco. Production was shut in due to planned maintenance in September, technical issues and weather. Production from the Nini and Cecilie fields was higher than expected.

For the majority of 2014 the Nini and Cecilie fields have produced through a temporary solution, which has involved direct loading to a shuttle tanker. Following successful repair of the Siri platform and subsea storage tank, this temporary solution was decommissioned on 25 September 2014. In December 2014 the operator Dong received final approval by the Danish Authorities to resume ordinary operations, pending only some further documentation and removal of temporary equipment.

During the fourth quarter, the **Lulita** field had a number of unplanned shut downs mainly due to water treatment issues at a platform nearby. Production for the quarter was 136 boepd net to Noreco.

The **Enoch** field remained closed during the fourth quarter. The maintenance work at the field has been completed. Production start has been somewhat further delayed while waiting for hook-up of the production well, and is now expected in the first quarter 2015.

## EXPLORATION

Exploration work in the fourth quarter was primarily directed towards further maturation of a number of key exploration licences. After the conclusion of detailed technical work, the following licences have been relinquished: UK P2003, UK P2009, UK P2026, UK P1768 and Nor PL646.

The Xana well in Danish Licence 9/95 was spudded on 9 December 2014, and drilling is expected to continue for approximately 145 days. The well targets the Upper Jurassic Xana prospect, and the results are expected in second quarter 2015.

Noreco was not awarded any licences in APA 2014.

## GROUP FINANCIALS

The Noreco group had **revenues** of NOK 145 million in the fourth quarter 2014, compared to NOK 255 million in the fourth quarter 2013. Low revenues in the fourth quarter were primarily due to lower production at Huntington and lower realised oil prices in the period.

**Production expenses** in the fourth quarter were NOK 140 million compared to NOK 139 million for the same period last year. For further information and specification of the production expenses per field, please refer to note 3 in the interim financial report.

**Exploration and evaluation expenses** amounted to NOK 9 million for the fourth quarter, compared to NOK 9 million in the fourth quarter 2013.

**Payroll expenses** were NOK 11 million in the fourth quarter compared to NOK 23 million for the fourth quarter last year. The reduction was mainly due to a material decrease in previously booked bonus accruals and also fewer employees in Noreco in 2014 compared to last year.

**Other operating expenses** amounted to NOK 40 million for the fourth quarter, representing an increase of NOK 20 million compared to the same period last year. The increase was primarily due to financial and legal fees relating to the ongoing restructuring efforts, which amounted to NOK 27 million in the fourth quarter 2014.

**Other (losses)/gains** were NOK 26 million in the fourth quarter. The unrealised gain in the period was related to increased values on oil put options with a strike of USD 70 per barrel.

**EBITDA** (operating result before depreciation and write-downs) in the fourth quarter 2014 was negative by NOK 28 million, compared to a positive EBITDA of NOK 56 million in the fourth quarter 2013.

**Depreciation** amounted to NOK 42 million in the quarter, down from NOK 99 million for the fourth quarter 2013. Depreciation follows the production. Hence, the reduction is due to a lower production level in the fourth quarter 2014 compared to the same period last year, and also that the depreciation basis for the fourth quarter 2014 was reduced due to impairment charges.

Fourth quarter **write-downs** amounted to NOK 1 089 million before tax and NOK 570 million after tax. The amount consists of the following write-downs:

- Huntington Forties – write-downs of NOK 635 million (NOK 241 million after tax)
- Siri Fairway (Cecilie and Nini) – write-downs of NOK 389 million (NOK 292 after tax)
- Goodwill related to the business in Denmark – write-downs of NOK 29 million (same amount before and after tax)
- Oselvar – write-downs of NOK 25 million (NOK 5 million after tax)
- Enoch – write-downs of NOK 11 million (NOK 3 million after tax)

The impairment test performed on 31 December 2014 was prepared applying the principles required according to IAS 36 and consistent with previous quarters. For the fourth quarter, the impairment test was significantly affected by reduced expectations to oil price compared to the last quarter.

The assets subject to impairment testing are sensitive to changes in assumptions, including oil prices. Following the fourth quarter write-downs, remaining book values on producing assets are related to the Huntington and Lulita fields. Assuming an oil price 10 percent lower than what was applied in the impairment test (USD per barrel of 61, 69 and 73 in 2015, 2016 and 2017 respectively), the fourth quarter write-downs would have increased by NOK 130 million before tax. Inversely, assuming an oil price 10 percent higher than what was applied in the impairment test, the write-downs would have been reduced by NOK 210 million before tax.

See note 10 and 11 in the interim financial report for details related to the impairment test.

**Financial income** amounted to NOK 76 million for the fourth quarter 2014, compared to NOK 536 million for the same period last year. The changes were due to gain on extinguishment of debt in fourth quarter 2013 and positive currency translation effects in fourth quarter 2014.

**Financial expenses** for the fourth quarter were NOK 603 million compared to NOK 153 million for the same period last year. Total interest expenses on bond loans amounted to NOK 566 million in the fourth quarter 2014, compared to NOK 102 million for the fourth quarter 2013. Out of the total interest expenses on the bond loans for the fourth quarter 2014, coupon and default interests amount to NOK 56 million. As a consequence of the bonds being in default on 31 December 2014 and thus the creditors had the right to call the entire bonds for payment, the bond loans have been reclassified to current liabilities and the remaining difference between principal amounts and book values of NOK 510 million has been recognised in the fourth quarter 2014.

**Taxes** amounted to an income tax expense of NOK 60 million for the fourth quarter. The fourth quarter tax expense corresponds to an average tax rate of -3.5 per cent. Taxable income was impacted by different tax regimes and tax rates. The businesses related to Denmark and the United Kingdom incurred significant write-downs due to lower oil price assumptions, and deferred tax assets were derecognised. The Norwegian part of the group had a negative result mainly because of interest expenses on bond loans in the fourth quarter. The tax rate represents the weighted average in relation to the results from the various subsidiaries. Reference is made to note 9 in the interim financial report for further details to the taxes this period.

**Net result** for the fourth quarter amounted to a loss of NOK 1 746 million, compared to a positive net result of NOK 339 million for the fourth quarter 2013.

The book value of **licence costs and capitalised exploration expenditures** at the end of the fourth quarter amounted to NOK 325 million, with deferred tax of NOK 220 million. This primarily consisted of the Gohta discovery in the Barents Sea on the Norwegian Continental Shelf with a book value of NOK 254 million and the Xana well on the Danish Continental Shelf with a book value of NOK 60 million. Net of deferred tax, the book values for Gohta and Xana are NOK 56 million and NOK 45 million, respectively.

**Non-current receivables** amounted to NOK 440 million, which is related to an insurance claim. A final court hearing has been scheduled for the second half of 2016. Since commencement of the legal proceedings, underwriters have produced their statement of defence and Noreco its reply. Underwriters have at the end of January 2015 submitted its rejoinder which formally marked the end of the exchange of written pleadings. Underwriters have requested the appointment of a technical expert to review and pronounce upon the technical evidence. This process is expected to last through most of 2015 and possibly the early part of 2016.

At the end of the fourth quarter Noreco had a total of **restricted cash, cash and cash equivalents** of NOK 1 254 million, of which NOK 609 million was restricted. Of this NOK 546 million is in escrow as security for abandonment obligations related to the company's producing fields Nini and Cecilie in Denmark. **Unrestricted cash** at the end of the fourth quarter amounted to NOK 644 million. See note 13 for further information.

**Asset retirement obligations** amounted to NOK 612 million at the end of the fourth quarter 2014, compared to NOK 327 million at the end of the fourth quarter 2013. Due to revised estimates on future abandonment costs at Huntington, the recognised asset retirement obligation has been increased with NOK 27 million in 2014. The asset retirement obligations associated with Siri Fairway and the Oselvar field have been increased by NOK 85 million and NOK 52 million in 2014 respectively, due to revised estimates on future abandonment costs as well as reduced economic lifetimes and thereby less time until the estimated time for abandonment. Asset retirement obligation associated with the Enoch field has been adjusted by NOK 3 million. In the event that the oil price recovers, economic lifetimes may be increased and the asset retirement obligations may be reduced correspondingly.

**Interest-bearing debt**, excluding exploration loans, had a book value of NOK 3 051 million (equal to principal amount) at the end of the fourth quarter 2014, compared to NOK 2 480 million (principal amount NOK 3 102 million) at the end of the fourth quarter 2013. The group's exploration loan amounted to NOK 284 million at the end of the quarter, compared to NOK 333 million at the end of the fourth quarter 2013. Total interest-bearing debt at the end of the quarter had a book value of NOK 3 335 million, of which all is classified as a current liability. See note 14 in the interim financial report for further details related to default under the loan agreements and classification of debt in the fourth quarter.

## BUSINESS DEVELOPMENT

As part of a multi-lateral agreement, Noreco reduced its ownership in licence 9/95 on the Danish continental shelf, which includes the Xana well from 20.1 per cent to 16 per cent. The ownership was transferred to Nordsøfonden, which is the Danish State's oil and gas company. The transfer of ownership has been approved by the Danish authorities and was effective from January 2015. Nordsøfonden will consequently carry its share of the costs related to the Xana well.

Noreco has agreed to transfer its 30 per cent ownership in PL484 in the Norwegian Sea to North Energy ASA. The transfer is subject to government approval, however the licence is likely to be relinquished.

## GOVERNANCE AND ORGANISATION

On 13 January 2015 an extraordinary general meeting elected the following directors to supplement the Board: John-Kaare Aune and Ariane Foisy. Silje Augustson, Andreas Greve-Isdahl, Bård Arve Lærum and Lotte Kiørboe were not up for election. The general meeting also elected Kristian Utkilen and Leif Bryn Petersen to join Morten Garman in the company's nomination committee.

At the start of 2014 the company had 54 employees, and at the end of the fourth quarter this number was reduced to 47, not including three employees in resignation period. The group also had four full time consultants.

Sick leave for the fourth quarter was 1.81 per cent.

Noreco is focused on maintaining core competence in the company and ensuring that the organisation is tailored to handle the future operations.

## PAYMENT SUSPENSION AFTER THE BALANCE SHEET DATE

In the middle of January 2015 and pending approval of the restructuring proposal, Noreco suspended payments in the Danish subsidiaries, and in February the payment suspension was further expanded to other group companies, except for Noreco Norway AS. The payment suspension was in part triggered by instructions by bondholders not to make payments on certain licences, as well as the board's responsibility for equal treatment of creditors, taking into account the uncertain financial situation for the group. Critical costs are being covered when due.

As a consequence of this, Noreco is currently in breach of obligations towards trade creditors, including default under the joint operating agreements for the production licences and the Maja licence where the Xana prospect is currently being drilled in Denmark, the Huntington licence and other exploration licences in the UK. Possible financial consequences from the default include interest charges on default payments, potential loss of revenue and ultimately loss of assets. If the restructuring proposal is approved by the bondholders' meetings and the extraordinary general meeting, the default may be cured and Noreco may keep its working interests in the licences going forward.

## SUMMARY OF RESTRUCTURING EFFORTS

Since the beginning of October 2014 a number of events occurred and circumstances were identified, which implied that the company's debt servicing ability was significantly impaired. These events and circumstances included lower than anticipated production from the company's key producing asset Huntington, lower reserves on Huntington and Oselvar, increased projected operating costs, a significant continued drop in oil prices and accelerated retention of cash to cover future abandonment costs. In light of this, the company initiated a comprehensive process aimed at securing a sustainable financial solution. It soon became clear that a capital restructuring was needed in order to be able to continue as a going concern and thus preserving values to the benefit of all stakeholders.

Noreco has had close dialogue with shareholders, Nordic Trustee, the trustee advisors and representatives for the bondholders' ad hoc committee in this period. The company has also reviewed planned activities in its licences in light of the low oil price, and it has identified a number of actions that have substantially reduced expected costs and improved the company's financial situation and outlook.

Whereas it was not possible to reach a pre-agreed solution with the bondholders and shareholders, the board resolved to finalise a revised restructuring proposal, which reflects feedback from the financial stakeholders. The revised proposal was presented on 4 February 2015 and will be subject to final decision in bondholders' meetings and shareholder meeting on 2 and 3 March 2015 respectively. For the extraordinary general meeting, the Chair of the board has as of 26 February 2016 received proxies for, approximately 33 percent of the outstanding shares in the company.

In summary, the proposal entails that the company will be converting approx. NOK 1.9 billion of bond debt (plus accrued interest) to equity with approx. NOK 1.2 billion of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind ("PIK") interests and no fixed amortisations except final maturity in three years, but with "cash sweep" if cash should become available. NOR06 will change borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. The three bond loans NOR10, NOR11 and NOR12 will be converted into a new NOK 600 million senior secured bond loan of Noreco. Following the proposed conversion, the holders of the converted bonds will own 92 per cent of the outstanding shares of the company, while the existing shareholders will own 8 per cent of the outstanding shares.

In the company's opinion, the restructuring proposal represents the best alternative available given the current circumstances. A bankruptcy would in the company's assessment be detrimental to the values of all stakeholders. In this regard, the board would however emphasise that each stakeholder should cast its vote in the bondholders' meetings and the extraordinary general meeting based on its own evaluation of the restructuring proposal.

## OUTLOOK

The proposed restructuring will, if necessary approvals are achieved, strengthen the financial solidity of the company and will establish a capital structure that is more aligned with the company's debt servicing ability under a low oil price scenario, while at the same time retaining potential upside related to oil price and in the company's various assets.

The company's debt ratio will remain high and the company will continue to depend upon production levels, oil price and operating expenses in accordance with expectations. The company will continue its efforts to streamline its operations and chase cost reductions and opportunities to improve cash liquidity while maximising value of assets.

# STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED

| NOK million | Note | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|---|
| **Revenue** | **2** | **145** | **255** | **1 143** | **894** |
| Production expenses | 3 | (140) | (139) | (587) | (430) |
| Exploration and evaluation expenses | 4 | (9) | (9) | (837) | (666) |
| Payroll expenses | 5 | (11) | (23) | (87) | (127) |
| Other operating expenses | 6 | (40) | (20) | (104) | (95) |
| Other (losses) / gains | 7 | 26 | (7) | 25 | (15) |
| **Total operating expenses** | | **(173)** | **(199)** | **(1 591)** | **(1 333)** |
| **Operating result before depreciation and write-downs (EBITDA)** | | **(28)** | **56** | **(448)** | **(440)** |
| Depreciation | 11 | (42) | (99) | (407) | (319) |
| Write-downs and reversals of write-downs | 10,11 | (1 089) | 2 | (2 885) | (1 211) |
| **Net operating result (EBIT)** | | **(1 159)** | **(41)** | **(3 740)** | **(1 969)** |
| Financial income | 8 | 76 | 536 | 172 | 570 |
| Financial expenses | 8 | (603) | (153) | (953) | (556) |
| **Net financial items** | | **(527)** | **383** | **(780)** | **15** |
| **Result before tax (EBT)** | | **(1 686)** | **342** | **(4 520)** | **(1 954)** |
| Income tax benefit / (expense) | 9 | (60) | (3) | 1 609 | 947 |
| **Net result for the period** | | **(1 746)** | **339** | **(2 912)** | **(1 008)** |
| **Other comprehensive income (net of tax):** | | | | | |
| *Items not to be reclassified to profit or loss in subsequent periods* | | | | | |
| Remeasurement of defined benefit pension plans | | - | 0 | - | 0 |
| *Total* | | - | *0* | - | *0* |
| *Items to be reclassified to profit or loss in subsequent periods* | | | | | |
| Cash flow hedge | | - | 1 | - | 7 |
| Discontinued cash flow hedge | | - | 4 | - | 4 |
| Reclassification of currency translation adjustment upon disposal of subsidiary | | - | - | (28) | - |
| Currency translation adjustment | | 173 | 42 | 278 | 264 |
| *Total* | | *173* | *47* | *249* | *274* |
| **Total other comprehensive income for the period (net of tax)** | | **173** | **47** | **249** | **275** |
| **Total comprehensive income for the period (net of tax)** | | **(1 573)** | **386** | **(2 663)** | **(733)** |
| Earnings per share (NOK 1) | | | | | |
| Basic | 19 | (30.9) | 20.9 | (52.0) | (149.3) |
| Diluted | 19 | (30.9) | 17.7 | (52.0) | (149.3) |

# STATEMENT OF FINANCIAL POSITION

CONSOLIDATED

| NOK million | Note | 31.12.14 | 31.12.13 |
|---|---|---|---|
| **Non-current assets** | | | |
| Licence and capitalised exploration expenditures | 10 | 325 | 743 |
| Goodwill | 10 | 23 | 174 |
| Deferred tax assets | 9 | 633 | 293 |
| Property, plant and equipment | 11 | 428 | 3 087 |
| Restricted cash | 13,16 | 576 | 500 |
| Receivables | 12 | 440 | - |
| **Total non-current assets** | | **2 425** | **4 797** |
| **Current assets** | | | |
| Tax refund | 9 | 315 | 378 |
| Derivatives | 16 | 28 | 1 |
| Trade receivables and other current assets | 12,16 | 189 | 551 |
| Restricted cash | 13,16 | 33 | 74 |
| Bank deposits, cash and cash equivalents | 13,16 | 644 | 403 |
| **Total current assets** | | **1 209** | **1 408** |
| **Total assets** | | **3 634** | **6 205** |
| **Equity** | | | |
| Share capital | 19 | 568 | 466 |
| Other equity | | (1 371) | 1 284 |
| **Total equity** | | **(803)** | **1 750** |
| **Non-current liabilities** | | | |
| Deferred tax | 9 | 0 | 953 |
| Asset retirement obligations | 18 | 612 | 327 |
| Bond loan | 14,16 | - | 1 939 |
| **Total non-current liabilities** | | **612** | **3 220** |
| **Current liabilities** | | | |
| Bond loan | 14,16 | 3 051 | 541 |
| Other interest bearing debt | 14,16 | 284 | 333 |
| Derivatives | 16 | 3 | 4 |
| Tax payable | 9 | 28 | 13 |
| Trade payables and other current liabilities | 15,16 | 458 | 343 |
| **Total current liabilities** | | **3 825** | **1 235** |
| **Total liabilities** | | **4 437** | **4 455** |
| **Total equity and liabilities** | | **3 634** | **6 205** |

# STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED

| NOK million | Share capital | Currency translation fund | Hedging reserve | Other equity | Total equity |
|---|---|---|---|---|---|
| 2013 | | | | | |
| **Equity on 01.01.2013** | **1 097** | **(64)** | **(11)** | **1 005** | **2 028** |
| Net result for the period | | - | | (1 008) | (1 008) |
| **Other comprehensive income for the period (net of tax)** | | | | | |
| Remeasurement of defined benefit pension plans | - | - | - | 0 | 0 |
| Currency translation adjustments | - | 264 | - | - | 264 |
| Cash flow hedge | - | - | 7 | - | 7 |
| Discontinued cash flow hedge | - | - | 4 | - | 4 |
| **Total comprehensive income for the period (net of tax)** | **-** | **264** | **11** | **(1 007)** | **(733)** |
| **Transactions with owners** | | | | | |
| Proceeds from share issued | 437 | - | - | 2 | 439 |
| Issue cost | - | - | - | (13) | (13) |
| Capital reduction | (1 068) | - | - | 1 068 | - |
| Equity component of convertible bond | - | - | - | 16 | 16 |
| Share-based incentive program | - | - | - | 13 | 13 |
| **Total transactions with owners for the period** | **(631)** | **-** | **-** | **1 086** | **455** |
| **Equity on 31.12.2013** | **466** | **200** | **-** | **1 084** | **1 750** |
| 2014 | | | | | |
| **Equity on 01.01.2014** | **466** | **200** | **-** | **1 084** | **1 750** |
| Net result for the period | | - | | (2 912) | (2 912) |
| **Comprehensive income for the period (net of tax)** | | | | | |
| Reclassification of currency translation adjustment upon disposal of subsidiary | - | (28) | - | - | (28) |
| Currency translation adjustments | - | 278 | - | - | 278 |
| **Total comprehensive income for the period (net of tax)** | **-** | **249** | **-** | **(2 912)** | **(2 663)** |
| **Transactions with owners** | | | | | |
| Proceeds from share issued | 102 | - | - | 3 | 105 |
| Issue cost | - | - | - | (4) | (4) |
| Share-based incentive program | - | - | - | 7 | 7 |
| **Total transactions with owners for the period** | **102** | **-** | **-** | **7** | **109** |
| **Equity on 31.12.2014** | **568** | **449** | **-** | **(1 820)** | **(803)** |

# STATEMENT OF CASH FLOWS

CONSOLIDATED

| NOK million | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Net result for the period | (1 746) | 339 | (2 912) | (1 008) |
| Income tax benefit | 60 | 3 | (1 609) | (947) |
| *Adjustments to reconcile net result before tax to net cash flows from operating activities:* | | | | |
| Tax paid | 5 | (44) | 0 | (64) |
| Tax refunded | 378 | 1 351 | 378 | 1 351 |
| Depreciation | 42 | 99 | 407 | 319 |
| Write-downs and reversal of write-downs | 1 089 | (2) | 2 885 | 1 211 |
| Expensed exploration expenditures previously capitalised | (3) | (14) | 758 | 556 |
| Share-based payments expenses | 2 | 2 | 7 | 13 |
| Impact from termination of defined benefit pension plan | - | (7) | - | (7) |
| Loss related to discontinued cash flow hedge | - | 4 | - | 4 |
| Unrealised loss / (gain) related to financial instruments | (30) | 3 | (28) | 5 |
| Gain on extinguishment of debt | - | (569) | - | (569) |
| Paid/received interests and borrowing cost - net | (15) | 128 | 92 | 431 |
| Interests received | 23 | 28 | 23 | 28 |
| Effect of changes in exchange rates | (60) | 45 | (91) | 13 |
| Loss on repurchase of bonds | - | - | - | 3 |
| Amortisation of borrowing costs incl. impact from change in amortisation plan | 519 | 37 | 633 | 82 |
| Accretion expense related to asset retirement obligations | 11 | 8 | 34 | 25 |
| Other items with no cash impact | - | (1) | - | - |
| Reclassification of currency translation adjustment upon disposal of subsidiary | - | - | (28) | - |
| *Changes in working capital* | | | | |
| Changes in trade receivable | 7 | (46) | 20 | 33 |
| Changes in trade payables | 12 | 28 | 3 | 20 |
| Changes in other current balance sheet items | 2 | (100) | 156 | (24) |
| **Net cash flow from operations** | **296** | **1 292** | **730** | **1 476** |
| **Cash flows from investing activities** | | | | |
| Purchase of tangible assets | (4) | (1) | (12) | (49) |
| Purchase of intangible assets | (22) | (7) | (307) | (412) |
| Establishment of security account for abandonment obligation in Denmark | - | (570) | - | (570) |
| **Net cash flow used in investing activities** | **(26)** | **(578)** | **(319)** | **(1 031)** |
| **Cash flows from financing activities** | | | | |
| Issue of share capital | 5 | 430 | 105 | 439 |
| Paid issue cost | - | (4) | (12) | (4) |
| Proceeds from issuance of bonds | - | - | - | 300 |
| Proceeds from utilisation of exploration facility | - | 40 | 291 | 345 |
| Proceeds from utilisation of overdraft facility | (7) | - | - | - |
| Repayment of bonds | - | - | (53) | - |
| Repayment of exploration facility | (352) | (564) | (352) | (573) |
| Repayment of reserve based facility | - | (412) | - | (581) |
| Repurchase own bonds | - | (2) | - | (50) |
| Paid borrowing cost | - | (20) | (35) | (61) |
| Interest paid | (8) | (137) | (115) | (440) |
| **Net cash flow from (used) in financing activities** | **(362)** | **(669)** | **(170)** | **(626)** |
| **Net change in cash and cash equivalents** | **(92)** | **45** | **241** | **(181)** |
| Cash and cash equivalents at the beginning of the period | 736 | 358 | 403 | 584 |
| **Cash and cash equivalents at end of the quarter** | **644** | **403** | **644** | **403** |

# NOTES

## 1 Accounting principles

**Basis for preparation**
The interim condensed consolidated financial statements (the interim financial statements) for the fourth quarter 2014 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. Certain amounts in comparable periods have also been revised to conform to current period presentation.

**Going concern**
The board of directors confirms that the interim financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these interim financial statements. The financial solidity and the company's cash position on 31 December 2014 is considered critical, and there is significant uncertainty with regards to the company's ability to continue as a going concern upon the time of release of these interim financial statements.

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. The restructuring process was triggered by weaker production at Huntington in 2014 than previously anticipated as well as lower projections for 2015 and onwards. Through the fourth quarter, Noreco's financial outlook continued to deteriorate as a consequence of the significant and continued drop in oil prices, increases in projected operating costs and accelerated retention of cash to cover future abandonment costs. These adverse circumstances led to significant write-downs in the fourth quarter, which in turn led to a situation where the equity was lost by the end of the reporting period. On 15 December 2014 Noreco informed that it would not be able to make payments for bond loan interests that were due on 9 December 2014. As a consequence of the non-payment, all outstanding bond loans and the exploration loan facility, which carry cross default provisions, were defaulted on and the creditors had the right to call the entire principal amounts and accrued interests for payment.

Since then, there has been an ongoing dialogue with Nordic Trustee, the trustee for the company's bond loans and representatives for an ad hoc committee of bondholders with the purpose of arriving at an agreed solution for a financial restructuring and a way forward for Noreco. SpareBank1 SR-Bank, which is the lenders' representative in the company's exploration loan facility, has also been informed continuously. During this period, no enforcement actions by the bondholders or by the exploration loan consortium have been initiated.

The board of directors is of the opinion that it is in the interest of all parties that Noreco continues operations. The company's objective for the restructuring has therefore been to maintain going concern, and with the aim of creating an acceptable solution where values could be preserved and underlying values realised for all financial stakeholders.

In order to remain as a going concern, the board has therefore announced a restructuring proposal that, if approved by the stakeholders, is expected to improve the company's financial outlook. On 2 March 2015, bondholders' meetings for the company's four outstanding bonds will vote on the restructuring, and an extraordinary general meeting has been called for 3 March 2015.

The restructuring entails that Noreco will be converting approx. NOK 1.9 billion of bond debt (plus accrued interest) to equity with approx. NOK 1.2 billion of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortisations except final maturity in three years, but with "cash sweep" if cash should become available. The bond loan NOR06 will change borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. The three bond loans NOR10, NOR11 and NOR12 will be converted into a new NOK 600 million senior secured bond loan of Noreco. Following the proposed conversion, the holders of the converted bonds will own 92 per cent of the outstanding shares of the company, and will in this way dilute the existing share capital to 8 per cent of the total. The subscription prices and the dilution are deemed to reflect market terms.

In the company's opinion, the restructuring proposal represents the best alternative available given the current circumstances. A bankruptcy would in the company's assessment be detrimental to the values of all stakeholders. If the going concern presumption can not be maintained, there is a significant risk that the company's assets can not be realised to the amounts recognised in the balance sheet at 31 December 2014.

A successful completion of the restructuring is conditional upon the bondholders' meetings and the extraordinary general meeting approving the restructuring proposal. Until these meetings have been held, there is still a significant risk with regards to the chance of success.

The proposed restructuring will, if necessary approvals are achieved, strengthen the financial solidity of the company and will establish a capital structure that is more aligned with the company's debt servicing ability under a low oil price scenario, while at the same time retaining potential upside related to oil price and in the company's various assets. The company's debt ratio will remain high and the company will be continue to depend upon production levels, oil price and operating expenses in accordance with expectations. The company will continue its efforts to streamline its operations and chase cost reductions and opportunities to improve cash liquidity while maximising value of assets.

**Reference to summary of significant accounting policies**
These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2013, except for the changes and additions as described below. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2013.

**New standards, interpretations and amendments adopted by Noreco on 1 January 2014**
Noreco has adopted the following new standards and changes as of 1 January 2014:
IFRS 10 - Consolidated Financial Statements
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Interests in Other Entities
Change of IAS 27 - Separate Financial Statements
Change of IAS 28 - Investments in Associates and Joint Ventures

None of these changes has resulted in changed accounting treatment for any items in Noreco consolidated accounts. For more comments regarding the assessment of the new standards, reference is made to note 2.1.1.b) in the annual financial statements for 2013.

# 2 Revenue

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Sale of oil | 136 | 218 | 1 056 | 828 |
| Sale of gas and NGL | 9 | 37 | 86 | 65 |
| **Total revenue** | **145** | **255** | **1 143** | **894** |

# 3 Production expenses

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Huntington | (55) | (60) | (242) | (130) |
| Nini [(1)] | (54) | (38) | (252) | (199) |
| Cecilie [(1)] | (16) | (7) | (51) | (40) |
| Lulita | (2) | (4) | (9) | (10) |
| Oselvar | (11) | (14) | (30) | (35) |
| Enoch | (1) | (15) | (3) | (16) |
| **Total production expenses** | **(140)** | **(139)** | **(587)** | **(430)** |

(1) Included in production expenses in YTD Q4 2014 is a non-cash, non recurring expense of NOK 40 million, whereof NOK 36 million relates to Nini and NOK 4 million relates to Cecilie. The expense is related to a receivable that arose due to payments done on behalf of a licence partner in previous years. Due to recent development in the case the receivable has been written off. The company continues to pursue the claim.

# 4 Exploration and evaluation expenses

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Acquisition of seismic data, analysis and general G&G costs | (10) | (17) | (58) | (95) |
| Exploration wells capitalised in previous years [(1)] | (1) | (3) | (603) | (311) |
| Dry exploration wells this period | 4 | 16 | (155) | (244) |
| Other exploration and evaluation costs | (2) | (5) | (21) | (15) |
| **Total exploration and evaluation costs** | **(9)** | **(9)** | **(837)** | **(666)** |

(1) The YTD Q4 2014 exploration wells capitalised in previous years is related to the Huntington Fulmar discovery and amounts to NOK 600 million before tax and NOK 228 million after tax.

# 5 Payroll expenses

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Salaries [(1)] | (12) | (28) | (89) | (107) |
| Social security tax | (2) | (4) | (11) | (15) |
| Pensions costs | (0) | 3 | (2) | (4) |
| Costs relating to share-based payments | (2) | (2) | (7) | (13) |
| Other personell expenses | (1) | (1) | (2) | (3) |
| Personnel expenses charged to operated licences | 5 | 7 | 24 | 15 |
| **Total personnel expenses** | **(11)** | **(23)** | **(87)** | **(127)** |
| Average number of employees | 51 | 56 | 52 | 62 |

(1) The Q4 salary costs are influenced by a material decrease in previously booked bonus accruals.

# 6 Other operating expenses

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Lease expenses [1] | (3) | (3) | (22) | (11) |
| IT expenses | (5) | (6) | (19) | (27) |
| Travel expenses | (1) | (1) | (5) | (5) |
| Office cost | (1) | (1) | (5) | (5) |
| Consultant fees [2] | (31) | (11) | (60) | (49) |
| Other operating expenses | (1) | (0) | (4) | (2) |
| Other operating expenses charged to own operated licences | 2 | 2 | 10 | 5 |
| **Total other operating expenses** | **(40)** | **(20)** | **(104)** | **(95)** |

(1) Lease expenses YTD Q4 2014 include NOK 7 million in a non-recurring cost related to scale down of premises in Stavanger.
(2) Consultant fees YTD Q4 2014 include financial and legal advisor fees relating to the ongoing restructuring efforts of NOK 27 million.

# 7 Other (losses) / gains

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Change in value, put options [1] | 30 | (3) | 29 | (11) |
| Change in value, other derivatives | (4) | (4) | (5) | (4) |
| Gain / (loss) on sale of assets | 0 | - | 0 | (0) |
| **Total other (losses) / gains** | **26** | **(7)** | **25** | **(15)** |

| (Loss) / gain per divestment | Accounting date | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|---|
| PL484 Verdande (farm-out) | 15.01.14 | | | 0 | - |
| **Total** | | | | **0** | **-** |

(1) On 31 December 2014 the company had oil put options for a total volume of 300 000 bbl lapsing in the period from the start of Q1 2015 to the end of Q2 2015 and with a strike of USD 70 per barrel. At 31 December 2014 these contracts had a total value of NOK 28 million. On 27 January 2015 the company sold the put options with proceeds of NOK 45 million

# 8 Financial income and expenses

**Financial income**

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Interest income | 7 | 5 | 23 | 24 |
| Gain on extinguishment of debt | - | 523 | - | 523 |
| Currency translation income [1] | 68 | 8 | 149 | 22 |
| Other financial income | 1 | 0 | 0 | 1 |
| **Total financial income** | **76** | **536** | **172** | **570** |

(1) Currency translation income YTD Q4 2014 includes reclassification of currency translation adjustments upon disposal of the subsidiary Noreco Petroleum UK Ltd. of NOK 28 million from the currency translation fund included in equity.

**Financial expenses**

| (NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Interest expense from bond loans [1] | (566) | (102) | (820) | (407) |
| Interest expense from reserve based loan | - | (8) | - | (33) |
| Interest expense from exploration loan | (8) | (10) | (26) | (32) |
| Interest expenses current liabilities | (9) | (2) | (12) | (3) |
| Accretion expense related to asset retirement obligations | (11) | (8) | (34) | (25) |
| Loss on repurchase of bonds | - | - | - | (3) |
| Currency translation expense | (8) | (13) | (58) | (36) |
| Other financial expenses | (0) | (11) | (2) | (17) |
| **Total financial expenses** | **(603)** | **(153)** | **(953)** | **(556)** |
| **Net financial items** | **(527)** | **383** | **(780)** | **15** |

(1) Out of the total interest expenses on the bond loans for the fourth quarter 2014, coupon and default interests amount to NOK 56 million. As a consequence of the bonds being in default on 31 December 2014 and thus the creditors had the right to call the entire bonds for payment, the bond loans have been reclassified to current liabilities and the remaining difference between principal amounts and book values of NOK 510 million has been recognised in Q4 2014. Coupon and amortisation YTD Q4 2014 amounted to NOK 198 million and NOK 622 million, respectively.

See note 14 for further information to the bond default situation and implications from the Boards' restructuring proposal.

# 9 Tax

| Income tax<br>(NOK million) | Q4 2014 | Q4 2013 | YTD Q4 2014 | YTD Q4 2013 |
|---|---|---|---|---|
| Income (loss) before tax | (1 686) | 342 | (4 520) | (1 954) |
| Income tax benefit | (60) | (3) | 1 609 | 947 |
| Equivalent to a tax rate of | -3.5 % | 1.0 % | 35.6 % | 48.4 % |

The tax rate for the fourth quarter 2014 was -3.5 percent compared to 1.0 percent for the same period last year. Noreco operates in three countries and six different tax regimes with separate tax rates. As such, the weighted average tax rate varies from quarter to quarter based on variations of the tax basis. More information regarding the relevant tax rates may be found in the annual report for 2013 in note 2.19.

The fourth quarter 2014 net result before tax in the UK is significantly impacted by Huntington impairment charges. Recognition of deferred tax assets is based on the expectation that sufficient taxable income in the future will be available to utilise the loss carry forwards and other tax reducing temporary differences. Expected taxable income in the UK entities have been significantly reduced as a consequence of the lower oil price. This has led to the remaining book value of deferred tax assets of NOK 305 million in Norwegian Energy Company UK Ltd, as well as deferred tax assets of NOK 280 million in Noreco Oil UK Ltd being written off in the fourth quarter. The net result before tax in the Danish business is impacted by impairment on goodwill and the Nini and Cecilie fields in the fourth quarter, also leading to derecognition of deferred tax assets in the amount of NOK 33 million.

The deferred tax assets in the UK and Denmark are sensitive to changes in the oil price and other key assumptions, such as foreign exchange rates, production expectations and expected levels of production costs. If the oil price recovers, production increases or cost cutting measures are implemented in the licences, utilisation of loss carry forwards would increase and the write-offs can be partially or fully reversed.

The Norwegian part of the group has a negative result mainly because of interest expenses on bonds, which in the fourth quarter are particularly high as a consequence of the remaining difference between principal amounts and book values of NOK 510 million being recognised in Q4 2014.

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 31.12.14** | Offshore | | Onshore | |
|---|---|---|---|---|
| (NOK million) | Recognised | Unrecognised | Recognised | Unrecognised |
| *Norway (offshore 51% / onshore 27%)* | | | | |
| Norwegian Energy Company ASA | - | - | | 695 |
| Altinex AS | - | - | - | 7 |
| Noreco Norway AS | 470 | - | 421 | - |
| *Denmark (offshore 39% / onshore 25%)* | | | | |
| Noreco Denmark A/S | - | - | - | - |
| Noreco Oil Denmark A/S | - | 4 487 | - | - |
| Noreco Petroleum Denmark A/S | - | 888 | - | - |
| *UK (offshore 32% / onshore 30%)* | | | | |
| Norwegian Energy Company (UK) Ltd. | | 552 | - | 552 |
| Noreco Oil (UK) Ltd. | 578 | 200 | 578 | 415 |
| **Total tax loss carry forward** | **1 048** | **6 127** | **998** | **1 669** |

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

Tax loss carry forwards in the Danish offshore tax regime of NOK 5 375 million has been calculated according to Chapter 3 and Chapter 3A in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Approximately NOK 654 million is time limited and will lapse by 2015-2016. Current forecasts also indicate that the remaining tax loss carry forwards will not be utilised.

| **Tax refund**<br>(NOK million) | 31.12.14 | 31.12.13 |
|---|---|---|
| **Current assets** | | |
| Tax refund related to Norwegian exploration activity in 2014 | 315 | - |
| Tax refund related to Norwegian exploration activity in 2013 | - | 378 |
| **Total tax refund** | **315** | **378** |

| **Tax payable**<br>(NOK million) | 31.12.14 | 31.12.13 |
|---|---|---|
| Tax payable in Norway | - | - |
| Tax payable other countries | 28 | 13 |
| **Total tax payable** | **28** | **13** |

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

# 10 Intangible non-current assets

| (NOK million) | Licence and capitalised exploration expenditures | Goodwill | Total |
|---|---|---|---|
| Acquisition costs 01.01.14 | 743 | 1 025 | 1 768 |
| Additions | 307 | - | 307 |
| Expensed exploration expenditures previously capitalised | (758) | - | (758) |
| Currency translation adjustment | 33 | 203 | 236 |
| **Acquisition costs 31.12.14** | **325** | **1 228** | **1 553** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.14 | | (852) | (852) |
| Write-downs [1] | | (164) | (164) |
| Currency translation adjustment | | (191) | (191) |
| **Accumulated depreciation and write-downs 31.12.14** | | **(1 206)** | **(1 206)** |
| **Book value 31.12.14** | **325** | **23** | **348** |

**Impairment test Q4 2014**

(1) An overview of total write-downs this year may be found in note 11.

For detailed description of applied methodology for the impairment test, reference is made to note 11 included in the annual financial statements for 2013.

**Main assumptions applied for the impairment test on 31 December 2014:**

| | |
|---|---|
| Discount rate (after tax) | 10.0 per cent |
| Inflation | 2.0 per cent |
| Cash flow | After tax |
| Reserves/resources | Internal estimated reserves and resources on 31 December 2014 |
| Oil price | Forward curve for oil price for the period 2015-2017. From 2018 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2015-2018. From 2019 the average rate for 2018 is used. |

**Result from impairment test of goodwill on 31 December 2014**
An impairment test of goodwill has been performed in the fourth quarter. The remaining goodwill in the group is related to the Danish business, which has been written down by NOK 29 million in the fourth quarter 2014. The write-down has been performed as a consequence of the lower oil price, which has reduced the recoverable amount of the asset supporting the goodwill.

Book value of goodwill associated with the Danish business is near the recoverable amount, and changes in the assumptions may require future write-downs.

**Result from impairment test of Licence and capitalised exploration expenditures on 31 December 2014**
An impairment test of all intangible assets has been performed this quarter. Based on considerations of progress, new information from evaluation work and other commerciality analysis regarding Noreco's suspended wells, there is no information that requires capitalised exploration costs to be written off. At the end of the fourth quarter, licence and capitalised exploration expenditures mainly consist of the Gohta discovery and capitalised exploration costs on Xana, for which drilling operations are currently ongoing.

In Q3 2014 the Huntington Fulmar discovery was written off as the discovery was no longer considered a commercial possibility for Noreco. The write-off amounted to NOK 600 million before tax and NOK 228 million after tax.

In Q2 2014 capitalised exploration expenditures related to dry well PL 484 Verdande was written off. The write-off in 2014 amounted to NOK 158 million before tax and MNOK 35 after tax.

# 11 Property, plant and equipment

| (NOK million) | Production facilities | Machinery and equipment | Total |
|---|---|---|---|
| Acquisition costs 01.01.14 | 5 514 | 4 | 5 518 |
| Additions | 12 | 0 | 12 |
| Revaluation abandonment assets | 161 | - | 161 |
| Currency translation adjustment | 981 | 1 | 981 |
| **Acquisition costs 31.12.14** | **6 668** | **5** | **6 673** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 01.01.14 | (2 427) | (4) | (2 431) |
| Depreciation | (407) | - | (407) |
| Write-downs | (2 818) | - | (2 818) |
| Reversal of write-downs | 96 | - | 96 |
| Currency translation adjustment | (685) | (1) | (685) |
| **Accumulated depreciation and write-downs 31.12.14** | **(6 241)** | **(5)** | **(6 245)** |
| **Book value 31.12.14** | **427** | **0** | **428** |

**Impairment test Q4 2014**
For detailed description of applied methodology for the impairment test, reference is made to note 12 included in the annual financial statements for 2013.

**Main assumptions applied for the impairment test on 31 December 2014:**

| | |
|---|---|
| Discount rate (after tax) | 10.0 per cent |
| Inflation | 2.0 per cent |
| Cash flow | After tax |
| Prognosis period | Estimated lifetime of the oil/gas field |
| Reserves/resources | Internal estimated reserves on 31 December 2014 |
| Oil price | Forward curve for oil price for the period 2015-2017. From 2018 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2015-2018. From 2019 the average rate for 2018 is used. |

**Result from impairment test on 31 Desember 2014**
The recoverable amount for the cash-generating unit consisting of the Danish fields connected to the Siri platform (Nini and Cecilie) was reduced in the fourth quarter mainly due to changes in the oil price assumptions, resulting in a write-down of NOK 292 million after tax. The Huntington field in the UK was in the fourth quarter written down by NOK 241 million after tax, while the Norwegian fields Oselvar and Enoch have been written down by NOK 5 million and NOK 3 million after tax, respectively. The basis for the write-downs in the fourth quarter is mainly related to lower oil price assumptions applied in the impairment test (USD per barrel of 61, 69 and 73 for 2015, 2016 an 2017 respectively). For Oselvar and the Siri Fairway, impairments are also affected by increased abandonment estimates, see note 18 for further details. The value in use has been used as recoverable amount for all assets tested for impairment as of 31 December 2014.

**Sensitivity**
Book value of Huntington is equal to the recoverable amount by the end of the quarter, and changes in the assumptions may require future write-downs. Oselvar, Enoch and Siri Fairway have book values of zero at the end of the fourth quarter. The write-downs may be fully or partially reversed if new information results in increased recoverable amounts.

Assuming an oil price 10 percent lower than what was applied in the impairment test (USD per barrel of 61, 69 and 73 in 2015, 2016 and 2017 respectively), the fourth quarter write-downs would have increased by NOK 130 million before tax. Inversely, assuming an oil price 10 percent higher than what was applied in the impairment test, the write-downs would have been reduced by NOK 210 million before tax.

**Overview of write-downs Q4 2014**

| (NOK million) | Write-downs and reversals | Income tax benefit (expense) | Net write-down after tax |
|---|---|---|---|
| Huntington Forties | (635) | 394 | (241) |
| Siri Fairway (Cecilie and Nini) | (389) | 97 | (292) |
| Goodwill Denmark | (29) | - | (29) |
| Oselvar | (25) | 19 | (5) |
| Enoch | (11) | 9 | (3) |
| **Total write-downs Q4 2014** | **(1 089)** | **519** | **(570)** |

**Overview of write-downs YTD Q4 2014**

| (NOK million) | Write-downs and reversals | Income tax benefit (expense) | Net write-down after tax |
|---|---|---|---|
| Goodwill United Kingdom | (134) | - | (134) |
| Huntington Forties | (1 978) | 1 226 | (752) |
| Siri Fairway (Cecilie and Nini) | (327) | 82 | (245) |
| Goodwill Denmark | (29) | - | (29) |
| Oselvar | (396) | 278 | (117) |
| Enoch | (21) | 17 | (5) |
| **Total write-downs YTD Q4 2014** | **(2 885)** | **1 603** | **(1 282)** |

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

| (NOK million) | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Non-current assets** | | |
| Other receivables [1] | 440 | - |
| **Total non-current receivables** | **440** | **-** |
| | | |
| **Current assets** | | |
| Tax receivables | - | 15 |
| Trade receivables | 86 | 106 |
| Receivables from operators relating to joint venture licences | 48 | 43 |
| Underlift of oil/NGL | 23 | 17 |
| Prepayments | 12 | 2 |
| Other receivables (1) | 20 | 368 |
| **Total trade receivables and other current receivables** | **189** | **551** |

(1) The company continues to progress an insurance claim through a persistent and firm pursuit towards a final court hearing. The claim is related to the damages to the Siri platform that were discovered in 2009 and the total claim exceeds NOK 2 billion, of which NOK 440 million (the USD amount is unchanged since 31 December 2013) is recognised as a non-current receivable at 31 December 2014. At year-end 2013 the receivable was classified as current. The book value of the receivable relates to costs incurred to prevent further damage, and loss of production income in 2009/2010. Based on technical documentation containing third party evaluations and the insurance agreements, the company remains firm that the claim is covered and at a minimum the booked amounts will be awarded.

A final court hearing has been scheduled for the second half of 2016. Since commencement of the legal proceedings, underwriters have produced their statement of defence and Noreco its reply. Underwriters have at end of January 2015 submitted its rejoinder which formally marked the end of the exchange of written pleadings. Underwriters have requested the appointment of a technical expert to review and pronounce upon the technical evidence. This process is expected to last through most of 2015 and possibly the early part of 2016.

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

**Restricted cash, bank deposits, cash and cash equivalents**

| (NOK million) | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Non-current assets** | | |
| Restricted cash pledged as security for abandonment obligation in Denmark (DKK 445 million) | 546 | 500 |
| Other restricted cash and bank deposits | 31 | - |
| **Current assets** | | |
| Restricted cash for repayments to bondholders | - | 70 |
| Other restricted cash and bank deposits (Withholding tax etc.) | 33 | 4 |
| **Total restricted cash** | **609** | **574** |
| Unrestricted cash, bank deposits and cash equivalents | 644 | 403 |
| **Total bank deposits** | **1 254** | **978** |

**Overdraft facilities**

| (NOK million) | Facility amount in currency | NOK | Used | Unused | Available |
|---|---|---|---|---|---|
| NOK (Exploration loan facility in Noreco Norway AS) [1] | 850 | 850 | 284 | 566 | - |
| **Total** | | **850** | **284** | **566** | **-** |
| Unrestricted cash and cash equivalents | | | | | 644 |
| **Accessible liquidity at 31.12.14** | | | | | **644** |

(1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities.

In accordance with the exploration loan agreement, a prerequisite for drawing on the facility is that the company should have a liquidity prognosis showing that the company expects to be compliant with all covenants for the next twelve months. Due to the default on outstanding bond loans, the company is currently also in cross default on the exploration loan facility. For further information on the default, reference is made to note 14.

# 14 Borrowings

## 14.1 Principal amounts and book values

| Non-current debt | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|
| (NOK million) | Principal amount | Book value | Principal amount | Book value |
| Bond loan NOR06 | - | - | 500 | 402 |
| Bond loan NOR10 | - | - | 899 | 829 |
| Bond Loan NOR11 | - | - | 736 | 502 |
| Bond Loan NOR12 Convertible | - | - | 367 | 206 |
| **Total non-current bonds** | **-** | **-** | **2 502** | **1 939** |
| Exploration loan | - | - | - | - |
| **Total non-current other interest bearing debt** | **-** | **-** | **-** | **-** |

| Current debt | | | | |
|---|---|---|---|---|
| (NOK million) | Principal amount | Book value | Principal amount | Book value |
| Bond loan NOR06 | 588 | 588 | 100 | 80 |
| Bond loan NOR10 | 1 372 | 1 372 | 500 | 461 |
| Bond Loan NOR11 | 722 | 722 | - | - |
| Bond Loan NOR12 Convertible | 369 | 369 | - | - |
| **Total current bonds** | **3 051** | **3 051** | **600** | **541** |
| Exploration loan | 284 | 284 | 345 | 333 |
| **Total current other interest bearing debt** | **284** | **284** | **345** | **333** |
| **Total borrowings** | **3 335** | **3 335** | **3 447** | **2 813** |

## 14.2 Debt default and the board's restructuring proposal

On 15 December 2014 Noreco informed that the company would not be able to make payments for bond loan interests that were due on 9 December 2014. As a consequence of the non-payment, all outstanding bond loans and the exploration loan facility, which carry cross default provisions, were defaulted on and the creditors had the right to call the entire principal amounts and accrued interests for payment. As a result, the outstanding bond- and exploration loans have been reclassified to current liabilities and the remaining difference between principal amounts and book values of NOK 510 million has been recognised as financial expense in the fourth quarter 2014.

Noreco and its legal and financial advisors have since the default occurred continued to remain in close dialogue with Nordic Trustee, the ad hoc bondholders' committee and the bondholder advisors with the aim of reaching a financial solution for the company. On 4 February 2015 the Board's revised restructuring proposal was launched, while notice of an extraordinary general meeting was issued on 10 February 2015 and summons to bondholder meetings were announced on 16 February 2015. In the proposal a new senior secured bond debt of NOK 600 million will be divided between NOR10, NOR11 and NOR12 at amended terms, while the remaining claim of NOK 1 979 million will be converted to equity. The outstanding claim in NOR06 will be maintained in Noreco Norway AS through a debtor change at amended terms. The restructuring proposal is now pending approval in bondholders' meetings in all four outstanding bond loans on 2 March, and by an extraordinary general meeting scheduled for 3 March.

# 15 Trade payables and other current liabilities

| (NOK million) | 31.12.14 | 31.12.13 |
|---|---|---|
| Trade payable | 17 | 58 |
| Liabilities to operators relating to joint venture licences | 224 | 190 |
| Overlift of oil/NGL | 4 | 16 |
| Accrued interest | 114 | 11 |
| Employee bonus/salary accruals | 11 | 33 |
| Public duties payable | 8 | 8 |
| Other current liabilities | 79 | 27 |
| **Total other current liabilities** | **458** | **343** |

The operator of the Huntington field has in 2014 reached a final agreement with Teekay, the owner of the FPSO, regarding some costs related to the start-up phase of the field, which Teekay were claiming. The dispute was mainly related to charter fees and certain operational costs for the period since commencement of production in April 2013 until August 2013. The outcome of the dispute is in line with the operator and Noreco's previous assessment, where the final settlement with Teekay resulted in no additional costs for Noreco.

# 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 31.12.2014 | | | | |
|---|---|---|---|---|
| (NOK million) | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | | 28 | | 28 |
| - Underlift of oil | | 23 | | 23 |
| **Total assets** | - | **51** | - | **51** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Interest rate swap agreements and trading derivatives | | 3 | | 3 |
| - Overlift of oil | | 4 | | 4 |
| **Total liabilities** | - | **8** | - | **8** |

| On 31.12.2013 | | | | |
|---|---|---|---|---|
| (NOK million) | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | | 1 | | 1 |
| - Underlift of oil | | 17 | | 17 |
| **Total assets** | - | **19** | - | **19** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Interest rate swap agreements and trading derivatives | | 4 | | 4 |
| - Overlift of oil | | 16 | | 16 |
| **Total liabilities** | - | **20** | - | **20** |

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.

The fair value of commodity derivatives and over/underlift of hydrocarbons are based on the spot oil price at closing date. The fair value of interest rate swap agreements is based on market's expectation for future interests. The fair value of foreign exchange derivatives are based on the spot foreign exchange rate at the closing date, as well as the market's expectation for future interests.

## 16.2 Financial instruments by category

On 31.12.2014

| (NOK million) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | | 28 | 28 |
| Trade receivables and other current assets | 154 | 23 | 177 |
| Restricted cash | 609 | | 609 |
| Bank deposits, cash and cash equivalents | 644 | | 644 |
| **Total** | **1 408** | **51** | **1 459** |

| (NOK million) | Financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| **Liabilities** | | | |
| Bonds | 3 051 | | 3 051 |
| Other interest bearing debt | 284 | | 284 |
| Derivatives | | 3 | 3 |
| Trade payables and other current liabilities | 442 | 4 | 447 |
| **Total** | **3 777** | **8** | **3 785** |

On 31.12.2013

| (NOK million) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | | 1 | 1 |
| Trade receivables and other current assets | 517 | 17 | 534 |
| Restricted cash | 574 | | 574 |
| Bank deposits, cash and cash equivalents | 403 | | 403 |
| **Total** | **1 495** | **19** | **1 513** |

| (NOK million) | Financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| **Liabilities** | | | |
| Bonds | 2 481 | | 2 481 |
| Other interest bearing debt | 333 | | 333 |
| Derivatives | | 4 | 4 |
| Trade payables and other current liabilities | 294 | 16 | 310 |
| **Total** | **3 107** | **20** | **3 127** |

## 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 2014:

| (NOK million) | Carrying amount | Fair value |
|---|---|---|
| **Financial assets:** | | |
| Derivatives | 28 | 28 |
| Trade receivables and other current assets | 177 | 177 |
| Restricted cash | 609 | 609 |
| Bank deposits, cash and cash equivalents | 644 | 644 |
| **Total** | **1 459** | **1 459** |
| **Financial liabilities:** | | |
| Bonds | 3 051 | 1 030 |
| Other interest bearing debt | 284 | 284 |
| Derivatives | 3 | 3 |
| Trade payables and other current liabilities | 447 | 447 |
| **Total** | **3 785** | **1 764** |

# 17 Segment reporting

The group's activities are entirely related to exploration and development of oil, gas and NGL. The group's activities are considered to have a homogeneous risk and rate of return before tax and are therefore considered as one operating segment.

Noreco has activities in Norway, Denmark and UK.

Transactions between the companies in the group are carried out at ordinary conditions which would have been equivalent for independent parties. Assets and liabilities are reflecting balance sheet items for the Group entities in the respective countries.

Excess value is allocated to the units that are expected to gain advantages by the acquisition. Loans, receivables and payables between the companies are included in segment assets and liabilities. These are eliminated in the consolidated balance sheet.

**Geographical information 31.12.2014 (YTD)**

| (NOK million) | Norway | Denmark | UK | Inter company | Group |
|---|---|---|---|---|---|
| **Condensed income statement** | | | | | |
| Revenue | 101 | 431 | 610 | - | 1 143 |
| Total operating expenses | (406) | (319) | (866) | - | (1 591) |
| Depreciation | (16) | (91) | (300) | - | (407) |
| Write-downs and reversals | (417) | (356) | (2 112) | - | (2 885) |
| Net operating result | (737) | (336) | (2 667) | - | (3 740) |
| Net financial items | (766) | 8 | (22) | - | (780) |
| Result before tax | (1 504) | (328) | (2 689) | - | (4 520) |
| Income tax benefit / (expense) | 564 | 41 | 1 003 | - | 1 609 |
| Net result for the period | (939) | (287) | (1 686) | - | (2 912) |
| **Condensed statement of financial positions** | | | | | |
| Licence and capitalised exploration expenses | 259 | 60 | 6 | | 325 |
| Goodwill | (0) | 23 | (0) | | 23 |
| Property, plant and equipment | 0 | 37 | 390 | | 428 |
| Other | 2 143 | 898 | 181 | (364) | 2 859 |
| Total assets | 2 402 | 1 018 | 577 | (364) | 3 634 |
| Total liabilities | 3 618 | 633 | 550 | (364) | 4 437 |
| **Capital expenditures** | | | | | |
| Capital expenditures production facilities | 0 | 11 | 1 | - | 12 |
| Capital expenditures exploration and evaluations | 267 | 35 | 4 | - | 307 |
| Total capital expenditures | 267 | 46 | 5 | - | 319 |

# 18 Asset retirement obligations

| (NOK million) | 31.12.14 | 31.12.13 |
|---|---|---|
| Balance on 1.1. | 327 | 323 |
| Provisions and change of estimates made during the year (1) | 166 | (45) |
| Accretion expense | 34 | 25 |
| Currency translation | 85 | 24 |
| **Total provision made for asset retirement obligations** | **612** | **327** |

(1) Due to revised estimates on future abandonment costs at Huntington, the recognised asset retirement obligation has been increased with NOK 27 million in 2014. The asset retirement obligations associated with Siri Fairway and Oselvar field have been increased by NOK 85 million and NOK 52 million in 2014 respectively, due to revised estimates on future abandonment costs as well as reduced economic lifetime and thereby less time until the estimated time for abandonment. Asset retirement obligation associated with the Enoch field has been adjusted by NOK 3 million.

In accordance with the agreement with the partners and normal practice in the industry, a restricted cash account will be established and serve as security for Noreco's share of the estimated future abandonment costs at Huntington. The first deposit is to be performed when the estimated abandonment obligation exceeds the value of the remaining production. As a result of reduced reserves and lower oil price assumptions, the value of the remaining production has been significantly reduced, which in turn implies that the first required cash deposit scheduled for December 2015 is expected to increase correspondingly.

Provisions made for asset retirement obligations includes the future expected costs (estimated based on current day costs inflated) for close-down and removal of oil equipment and production facilities used in hydrocarbon activities. The estimated future provision is discounted using a risk-free rate adjusted for credit risk of 9 percent, which represents the Group's expected average alternative borrowing interest, to calculate the net present value of the obligation. Inflation is assumed to be 2 percent.

# 19 Shares and share capital

| (NOK million) | No. of shares | Share Capital |
|---|---|---|
| 31 December 2013 | 4 656 094 082 | 466 |
| *Change in share capital in 2014* | | |
| Share issue (repair) on 21 January 2014 | 1 000 000 000 | 100 |
| Share issue employees on 14 February 2014 | 2 391 002 | 0 |
| Share issue for reverse split on 17 September 2014 | 16 | 0 |
| Reverse split 17 September 2014 | (5 601 900 249) | - |
| Share issue through partial conversion of bond on 22 October 2014 | 172 992 | 2 |
| 31 December 2014 | 56 757 843 | 568 |

Earnings per share for comparable periods have been revised due to the reverse split that was completed in Q3 2014.

As part of the notice for an extraordinary general meeting to be held on 3 March 2015 for approval of the restructuring, the board proposes a capital reduction by reducing the nominal value of the shares from NOK 10 per share to NOK 0.10 per share to cover losses that cannot be covered otherwise. Following an approval of the capital reduction, approval for issuing 652 715 195 shares by conversion of NOK 1 979 million in bond debt is proposed, after which a reverse split of the outstanding shares at a ratio of 100:1 is proposed.

# 20 Subsequent events

**Payment suspension**
In the middle of January 2015 and pending approval of the restructuring proposal, Noreco suspended payments in the Danish subsidiaries, and in February the payment suspension was further expanded to other group companies, except for Noreco Norway AS. The payment suspension was in part triggered by instructions by bondholders not to make payments on certain licences, as well as the board's responsibility for equal treatment of creditors, taking into account the uncertain financial situation for the group. Critical costs are being covered when due.

As a consequence of this, Noreco is currently in breach of obligations towards trade creditors, including default under the joint operating agreements for the production licences and the Maja-licence where the Xana prospect is currently being drilled in Denmark, the Huntington licence and other exploration licences in the UK. Possible financial consequences from the default include interest charges on default payments, potential loss of revenue and ultimately loss of assets. If the restructuring proposal is approved by the bondholders' meetings and the extraordinary general meeting, the default may be cured and Noreco may keep its working interests on the licences going forward.

On 2 March 2015, bondholders' meetings for the company's four outstanding bonds will vote on the restructuring, and an extraordinary general meeting has been called for 3 March 2015.

## INFORMATION ABOUT NORECO

**Head office Noreco**

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| Internet | www.noreco.com |
| Organisation number | NO 987 989 297 mva |

**Board of Directors Noreco**

| | |
|---|---|
| Silje Augustson | Chair |
| Andreas Greve-Isdahl | |
| John-Kaare Aune | |
| Ariane Foisy | |
| Lotte Kiørboe | |
| Bård Arve Lærum | |

**Noreco management**

| | |
|---|---|
| Tommy Sundt | CEO |
| Odd Arne Slettebø | CFO |
| Øyvind Sørbø | VP commercial |
| Lars Fosvold | VP exploration |

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**Financial calendar 2014**

| | |
|---|---|
| 27 February | Q4 2014 Presentation |
| 20 May | Annual General Meeting (Stavanger) |
| 21 May | Q1 2015 Presentation |
| 20 August | Q2 2015 Presentation |
| 12 November | Q3 2015 Presentation |

**Annual reports**

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

**Quarterly publications**

Quarterly reports and supplementary information for investors and analysts are available on www.noreco.com. The publications can be ordered by sending an e-mail to av@noreco.com

**News releases**

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

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