



**Norwegian Energy Company ASA**  
**Second Quarter 2018**

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## Highlights

The court hearings in the appeal case regarding the Siri Insurance Claim concluded on 23 March 2018 and the final verdict was given by the Eastern High Court on 4 May 2018. Noreco was awarded approx. USD 12,5 million including additional interest of approx. USD 8,2 million, in total approx. USD 20,7 million.

Noreco applied to the Danish Appeals Permission Board on 31 May for permission to appeal the decision from the Eastern High Court to the Supreme Court of Denmark.

## Business Development

On 15 December 2016, the Maritime and Commercial High Court in Copenhagen announced their ruling on the SIRI Insurance Claim. The total damages ruled in favor of the claimants (Noreco and its partners; Awilhelmsen Special Opportunities AS and QVT Financial LP) amounted to approximately USD 470 million, including interest. Of the total amount, Noreco is entitled to approximately USD 270 million.

In January 2017, it was announced that the Supreme Court in Copenhagen had received an appeal from the counterparties in relation to the SIRI Insurance Claims ruling, the appeal was dismissed by the court on 17 February 2017.

In late February 2017, Eastern High Court in Copenhagen received an appeal from the insurers which was accepted. The court hearings started on 1 March 2018 and concluded on 23 March 2018. The verdict from the Eastern High Court was given on 4 May, Noreco was awarded approx. USD 12,5 million including additional interest of approx. USD 8,2 million, in total approx. USD 20,7 million. The court ruled in favor of the insurers with regards to their claim on Section 1 and LOPI, Noreco was awarded parts of the Sue and Labor claim.

Noreco, in cooperation with its Danish legal counsel, finds the decision from the Eastern High Court in principle to be incorrect. As a result of this, Noreco applied on 31 May 2018 to the Danish Appeals Permission Board for permission to appeal the decision to the Supreme Court of Denmark. Noreco expects a decision from the Danish Appeals Permission Board in the first half of November and further expects that it will take between 1 – 2 years before a final decision from the Danish Supreme Court will be available.

It is the firm belief of the Board of Directors that the ruling by the Eastern High Court is incorrect and hence they believe that the accounts should reflect this; however due to IFRS regulations this is not possible and as a result a non- GAAP balance sheet has been prepared.

Noreco is currently working to enhance its reserves and production base, with specific focus on Denmark and the United Kingdom. The Company continued work with the new strategy in the second quarter of 2018 and is expecting near-term conclusions

## Outlook

Noreco is currently working to enhance its reserves and production base, with specific focus on Denmark and the United Kingdom. The Company continued work with the new strategy in the second quarter of 2018 and is expecting near-term conclusions.

Noreco is awaiting a decision in the first half of November by the Danish Appeals Permission Board for permission to appeal the decision in the Siri insurance case to the Supreme Court of Denmark. Noreco and its Danish legal counsel strongly disagree with the decision from the Eastern High Court and find the decision to be incorrect.

Noreco has summoned bondholders in NOR10 to a bondholders meeting to be held on 4 September 2018 in which Noreco wishes to extend the maturity of the bond with 6 months. Noreco have received voting undertakings in favour of the proposals from the largest bondholders.

# Non-NGAAP Measures

Non-NGAAP Balance sheet for Norwegian Energy Company ASA

NOK million	Condensed NGAAP balance sheet 30.06.18	Non-GAAP 30.06.18	Condensed NGAAP balance sheet 2017	Non-NGAAP 31.12.17
<b>Assets</b>				
Restricted Cash	558	558	580	580
Investments in subsidiaries, loan to and receivables from group companies	209	1 665	276	1 760
Machinery and equipment	1	1	1	1
Bank deposits, cash and cash equivalents	79	79	26	26
<b>Total assets</b>	<b>846</b>	<b>2 303</b>	<b>883</b>	<b>2 366</b>
<b>Equity</b>				
Share capital	72	72	72	72
Other equity	287	1 468	579	1 484
<b>Total equity</b>	<b>359</b>	<b>1 540</b>	<b>651</b>	<b>1 556</b>
<b>Liabilities</b>				
Bond loan	153	153	161	161
Guarantee provision	280	556	-	578
Debt to group companies	41	41	55	55
Trade payables and other current liabilities	13	13	16	15
<b>Total liabilities</b>	<b>487</b>	<b>763</b>	<b>232</b>	<b>809</b>
<b>Total equity and liabilities</b>	<b>846</b>	<b>2 303</b>	<b>883</b>	<b>2 366</b>

The differences between the NGAAP and the non-NGAAP balance sheet consist of the following:

**Investment in subsidiaries, loan to and receivables from group companies:** Though the ruling from Danish High Court only awarded Noreco a total compensation of USD 20.7 million, the company believes in a compensation significantly above this amount and is consequently working on appealing the ruling to the Danish Supreme Court. The above Non-GAAP balance sheet is representing the company's view on a fair value of the subsidiaries. The value has been increased by Noreco's share of the result of the Siri insurance case as ruled by the Danish Maritime and Commercial High Court and not yet accounted for in the NGAAP balance. Furthermore value of subsidiaries has been adjusted by the guarantee provision offset by a similar liability named "Guarantee provision".

	2018	2017
Loan and receivables to group companies	209	276
Impairment from Siri ruling in Eastern High Court	-340	-340
Adjustment share of result from Siri Claim	1 241	1 245
Guarantee provision	556	578
<b>Investment in subsidiaries, loan to and receivables from group companies</b>	<b>1 665</b>	<b>1 760</b>

**Equity:** The value has been increased by the above mentioned increased value of the insurance case and already accrued Guarantee provision as it is the view that the subsidiary will be able to repay any cost covered by the guaranty.

**Guarantee provision:** This amount is relating to the guarantee (Escrow account above mentioned as Restricted cash) provided by Noreco ASA towards abandonment cost in the Danish subsidiaries. It is the view of the company that Noreco ASA will be liable for this amount and it therefore should be presented in the balance sheet. At the same time the company expects that the subsidiary will be able to repay the amount to Noreco ASA and the amount has consequently been treated as a receivable and included in investment in subsidiaries.

## Group Financials

The Noreco group had **revenues from continued operations** of NOK 1 million in the second quarter 2018 relating to revenue from Lulita compared to NOK 4 million in the second quarter 2017. Lulita only produced in one of the three months of the second quarter.

**Production expenses from continued operations** amounted to NOK 1 million in the second quarter of 2018 compared to a positive 5 million in the second quarter in 2017 due to a settlement reversing previously accrued and expensed production costs. The year 2017 ended with an expense of NOK 386 million due to reversal of the Siri claim after the verdict from the Eastern High Court on 4 May 2018. Noreco was awarded approx. USD 12,5 million including additional interest of approx. USD 8,7 million, in total approx. USD 20,7 million which is now accounted for in the balance sheet.

**Personnel expenses** in second quarter was NOK 3 million compared to NOK 17 million in the second quarter in 2017 (mainly due to share base payments).

**Other operating expenses from continued operations** were a cost of NOK 7 million for the second quarter compared to an expense of NOK 10 million for the same quarter in 2017. The operating expenses are influenced by consulting fees mainly in relation to new business opportunities.

**EBITDA from continued operations** (operating result before depreciation and write-downs) in the second quarter 2018 was a loss of NOK 10 million compared to a loss of NOK 16 million in the same quarter 2017, both years influenced by consulting fees.

**Net Financial items from continued operations** amounted to an income of NOK 23 million for the second quarter of 2018, compared to a cost of NOK 19 million in the same quarter of 2017. The effect in the second quarter of 2018 is mainly due to currency translation.

**Taxes from continued operations** amounted to NOK 0 million for the second quarter compared to an income of NOK 11 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.

**Profit from discontinued operation** amounted to NOK 0 million compared to a loss of NOK 3 million for the same quarter in 2017.

**Net result** for the second quarter of 2018 is a gain of NOK 14 million, compared to a loss of NOK 26 million for the same quarter in 2017.

**Non-current restricted cash** amounts to NOK 575 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.

**Non-current receivables** amount to NOK 0 million due to reversal of the Siri claim after the verdict from the Eastern High Court on 4 May 2018 awarding Noreco a total of USD 20,7 million. The awarded amount of the Siri insurance case is classified as other current assets in second quarter of 2018 and by year end 2017. At the end of the second quarter 2018, Noreco had a total of NOK 102 million in bank deposits, cash and cash equivalents.

**Equity** amounted to NOK 109 million at the end of the quarter, compared to NOK 141 million at the end of 2017.

**Asset retirement obligations** amounted to NOK 571 million at the end of the quarter compared to NOK 593 million at the end of 2017.

**Interest-bearing debt**, had a book value of NOK 153 million (principal amount NOK 161 million) at the end of second 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 98,63% of principal amount.

## 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 the pending decision from the Danish Appeals Permission Board.

## Governance and Organisation

The number of employees was 7 at the end of the quarter.

**Statement Pursuant to section 5-6 of the securities trading act**

Today, the board of directors and Managing Director reviewed and approved the financial report for the 2. Quarter 2018.

The financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU, and the Norwegian additional requirements in the Securities Trading Act.

To the best of our knowledge:

- the report has been prepared in accordance with applicable financial reporting standards,
- the financial statements give a true and fair view of the assets, liabilities, financial position and result as a whole for the period.
- the financial board of director's report includes a fair review of
  - o important events that occurred during the accounting period and their impact on the financial statements
  - o the principal risks and uncertainties for the remaining three months of the financial year
  - o major related party transactions.

Oslo, 22 August 2018

The Board of Directors and Managing Director of Norwegian Energy Company ASA

**Riulf Rustad**  
Chair

**Lars Purlund**  
Board Member

**Marianne Lie**  
Board Member

**John Madden**  
Board Member

**Tone Kristin Omsted**  
Board Member

**Frederik Rustad**  
Managing Director



# Condensed Consolidated Statement of Comprehensive Income

Noreco Second Quarter  
2018

All figures in NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017	2017*
<b>Continued operations</b>						
Revenue	3	1	4	2	4	10
<b>Total revenues</b>		<b>1</b>	<b>4</b>	<b>2</b>	<b>4</b>	<b>10</b>
Production expenses	4	(1)	5	(1)	5	(386)
Exploration and evaluation expenses	5	0	1	0	1	-
Personnel expenses	6	(3)	(17)	(6)	(21)	(29)
Other operating expenses	7	(7)	(10)	(13)	(19)	(33)
Other (losses) / gains	8	-	-	-	-	-
<b>Total operating expenses</b>		<b>(11)</b>	<b>(20)</b>	<b>(20)</b>	<b>(34)</b>	<b>(448)</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>						
		<b>(10)</b>	<b>(16)</b>	<b>(18)</b>	<b>(30)</b>	<b>(439)</b>
Depreciation	12	(0)	(0)	(0)	(0)	(1)
<b>Net operating result (EBIT)</b>		<b>(10)</b>	<b>(16)</b>	<b>(18)</b>	<b>(30)</b>	<b>(440)</b>
Financial income	9	44	30	61	56	180
Financial expenses	9	(20)	(49)	(72)	(87)	(143)
<b>Net financial items **</b>		<b>23</b>	<b>(19)</b>	<b>(11)</b>	<b>(31)</b>	<b>36</b>
<b>Result before tax (EBT)</b>						
		<b>14</b>	<b>(35)</b>	<b>(29)</b>	<b>(61)</b>	<b>(404)</b>
Income tax benefit / (expense)	10	-	11	(0)	16	(9)
<b>Net result for the period continued operation</b>		<b>14</b>	<b>(24)</b>	<b>(29)</b>	<b>(45)</b>	<b>(413)</b>
<b>Discontinued operation</b>						
Profit (loss) from discontinued operation (net of income tax)	2	(0)	(3)	(0)	107	102
<b>Net result for the period</b>		<b>14</b>	<b>(26)</b>	<b>(29)</b>	<b>62</b>	<b>(310)</b>
<b>Other comprehensive income (net of tax) **</b>						
Items to be reclassified to profit or loss in subsequent periods						
Changes in fair value of bond debt		2	-	(4)	(13)	(22)
Currency translation adjustment		(20)	1	1	(17)	20
<b>Total other comprehensive income for the period (net of tax)</b>		<b>(18)</b>	<b>1</b>	<b>(3)</b>	<b>(30)</b>	<b>(2)</b>
<b>Total comprehensive income for the period (net of tax)</b>		<b>(4)</b>	<b>(24)</b>	<b>(32)</b>	<b>32</b>	<b>(312)</b>
<b>Earnings per share (NOK 1)</b>						
Basic	19	1.9	(3.59)	(4.04)	8.69	(43.48)
Diluted	19	1.86	(3.47)	(3.94)	8.42	(42.41)
<b>Earnings per share continuing operation (NOK 1)</b>						
Basic	19	1.92	(4.36)	(4.03)	(7.33)	(57.35)
Diluted	19	1.87	(4.26)	(3.93)	(6.13)	(56.42)

\*) 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 previously booked Siri claim of USD 59 million has been replaced by the awarded amount from the latest verdict USD 20,7 million including interest. Both the reversal 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 2017 figures of the Q2 report.

\*\*) Even though the Company have a perfect economical hedge for the ARO, IFRS9 does not permit hedge accounting when parent and subsidiary have different functional currency. As a consequence we have this quarter reclassified the currency translation related to the ARO to financial items instead of through OCI in line with IFRS9 whereas Q2 2017 and YE 2017 figures are changed accordingly. The effect of Net result is an increase of NOK 33 million for Q2 2018, a reduction of NOK 12 million for Q2 2017 and a reduction of NOK 26 million for YE 2017. The fair value adjustment of the bond loan has this quarter along with the Q2 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

Noreco Second Quarter  
2018

All figures in NOK million	Note	30.06.18	31.12.17
<b>Non-current assets</b>			
Deferred tax assets	10	0	-
Property, plant and equipment	11	11	11
Restricted cash	13, 16	575	598
Receivables	12	-	-
<b>Total non-current assets</b>		<b>586</b>	<b>609</b>
<b>Current assets</b>			
Tax refund	10	0	0
Trade receivables and other current assets	12, 16	170	174
Restricted cash	13, 16	2	2
Bank deposits, cash and cash equivalents	13, 16	102	133
<b>Total current assets</b>		<b>274</b>	<b>310</b>
<b>Total assets</b>		<b>860</b>	<b>919</b>
<b>Equity</b>			
Share capital	18	72	72
Other equity		37	69
<b>Total equity</b>		<b>109</b>	<b>141</b>
<b>Non-current liabilities</b>			
Deferred tax	10	0	0
Asset retirement obligations	17	571	593
Other interest bearing debt	14, 16	(0)	(0)
<b>Total non-current liabilities</b>		<b>571</b>	<b>593</b>
<b>Current liabilities</b>			
Bond loan	14,16	153	155
Other interest bearing debt	14,16	0	(0)
Trade payables and other current liabilities	15,16	27	30
<b>Total current liabilities</b>		<b>180</b>	<b>185</b>
<b>Total liabilities</b>		<b>751</b>	<b>778</b>
<b>Total equity and liabilities</b>		<b>860</b>	<b>919</b>

# Condensed Consolidated Statement of Changes in Equity

Noreco Second Quarter  
2018

All figures in NOK million	Note	Share capital	Currency translation fund	Other equity	Total equity
<b>2017</b>					
Equity on 01.01.2017		71	462	(96)	437
Net result for the period			-	62	62
<b>Other comprehensive income for the period (net of tax)</b>					
Currency translation adjustments		-	(21)	-	(21)
<b>Total comprehensive income for the period (net of tax)</b>		-	(21)	62	41
<b>Transactions with owners</b>					
Proceeds from share issued	18	1	-	2	2
Share-based incentive program		-	-	13	13
<b>Total transactions with owners for the period</b>		1	-	14	15
Equity on 30.06.2017		71	441	(20)	493
<b>2018</b>					
Equity on 01.01.2018		72	493	(424)	141
Net result for the period			-	(29)	(29)
<b>Other comprehensive income for the period (net of tax)</b>					
Change in fair value of bond debt			-	(4)	(4)
Currency translation adjustments			1	-	1
Other OCI		-	-	(0)	(0)
<b>Total other comprehensive income for the period (net of tax)</b>		-	1	(4)	(3)
<b>Transactions with owners</b>					
Proceeds from share issued	18	-	-	-	-
Share-based incentive program		-	-	-	-
<b>Total transactions with owners for the period</b>		-	-	-	-
Equity on 30.06.2018		72	494	(458)	109

# Condensed Consolidated Statement of Cash Flows

Noreco Second Quarter  
2018

All figures in NOK million	Q2 2018	Q2 2017	YTD Q2 2018	2017
Net result for the period	14	(26)	(29)	(310)
Income tax benefit	-	11	0	(6)
<b>Adjustments to reconcile net result before tax to net cash flows from operating activities:</b>				
Tax Refundable				401
Depreciation	0		0	(0)
Share-based payments expenses		11	-	13
Change in fair value of bonds	2	-	(4)	(22)
Effect of changes in exchange rates	(20)	1	1	20
Paid abandonment cost		(5)		(9)
Payment in kind interest with no cash effect				36
Reversal of Siri Claim				343
<b>Changes in working capital</b>				
Changes in trade receivable	4	90	4	1
Changes in trade payables	(3)	(48)	(3)	(37)
Changes in other current balance sheet items	(4)		12	11
<b>Net cash flow from operations</b>	<b>(7)</b>	<b>35</b>	<b>(20)</b>	<b>438</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible assets				1
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Cash flows from financing activities</b>				
Issue of share capital			-	4
Repayment of bonds		33		(393)
Repurchase own bonds			(6)	
Interest paid			(5)	(5)
<b>Net cash flow from (used) in financing activities</b>	<b>-</b>	<b>33</b>	<b>(12)</b>	<b>(394)</b>
<b>Net change in cash and cash equivalents</b>	<b>(7)</b>	<b>68</b>	<b>(32)</b>	<b>45</b>
Cash and cash equivalents at the beginning of the period	109	74	133	89
<b>Cash and cash equivalents at end of the quarter</b>	<b>102</b>	<b>142</b>	<b>102</b>	<b>133</b>

# 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 second 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 second quarter of 2018 were authorised for issue by the board of directors on 22 of August 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 cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

### 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 initially 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. Fair value of bond for 2017 and Q2 2017 has comparatively been presented through OCI in this Q2 2018 report.

### Discontinued operation

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

**IFRS 9 Financial instruments**

IFRS 9, effective from 1 January 2018, will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new model for classification and measurement of financial assets and financial liabilities, a reformed approach to hedge accounting, and a more forward looking impairment model. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: 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.

The standard permits early adoption, and was issued July 2014. IFRS 9 was endorsed by the EU in late 2016. IFRS 9 requires that for a financial liability designated as at fair value through profit or loss the effects of changes in the liability's credit risk shall be included in other comprehensive income instead of through profit and loss. This is relevant for the bond loan now recognized at fair value 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.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except that the group will take 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 plans to 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 are not expected to have any significant impact on the financial statements of the group and the group does not have any material effect on equity in relation to the standard for the second quarter 2018.

**IFRS 15 Revenue from contracts with customers**

IFRS 15 is a joint revenue recognition standard issued from IASB and FASB and is effective from 1 January 2018, with earlier adoption allowed. The standard presents a single, principles-based five-step model for determination and

recognition of revenue to be applied to all contracts with customers. The standard replaces existing IFRS requirements in IAS 11 Construction Contracts and IAS 18 Revenue, as well as supplemental IFRIC guidance. The standard was endorsed by the EU in October 2016. The Group plans to apply 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 recognized 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 does not have any impact on equity at adoption of IFRS 15 at 1 January 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 balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the 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 balance sheet and the statement of income. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. While this definition is not dissimilar to that of IAS 17, it would have required further evaluation of each contract to determine whether all leases included or contracts currently not defined as leases, would qualify as leases under the new standard. The standard introduces new requirements both as regards establishing the term of a lease and the related discounted cash flows that determine the amount of a lease liability to be 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 size of lease payments and the duration of the contracts, IFRS 16 does not have a material impact on the Consolidated balance sheet or statement of income.

**Other amendments to standards**

Other standards and amendments to standards, issued but not yet effective, are either not expected to impact 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 received the Exit refund and repaid NOK 393 million to the bondholders in accordance with the approved bondholder proposal of 16 March 2016.

NOK million	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Revenue</b>	-	-	-	-
Production expenses	-	0	-	0
Exploration and evaluation expenses <sup>1)</sup>	(0)	(1)	(0)	(2)
Payroll expenses	(0)	(0)	(0)	(0)
Other operating expenses	(0)	(1)	(0)	(3)
Other (losses) / gains	-	0	-	112
<b>Total operating expenses</b>	<b>(0)</b>	<b>(2)</b>	<b>(0)</b>	<b>107</b>
<b>Operating result before depreciation and write-downs (EBITDA)</b>	<b>(0)</b>	<b>(2)</b>	<b>(0)</b>	<b>107</b>
Depreciation	-	(0)	-	(0)
Write-downs and reversals of write-downs	-	(0)	-	(0)
<b>Net operating result (EBIT)</b>	<b>(0)</b>	<b>(3)</b>	<b>(0)</b>	<b>107</b>
Financial income	1	0	1	1
Financial expenses	(1)	-	(1)	-
<b>Net financial items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Result before tax (EBT)</b>	<b>(0)</b>	<b>(3)</b>	<b>(0)</b>	<b>107</b>
Income tax benefit / (expense)	-	-	-	-
<b>Net result for the period</b>	<b>(0)</b>	<b>(3)</b>	<b>(0)</b>	<b>107</b>

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

### 3 Revenue

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Sale of oil		1	4	2	3
Sale of gas and NGL		0	1	0	1
<b>Total Revenue continued operations</b>		<b>1</b>	<b>4</b>	<b>2</b>	<b>4</b>
<b>Total Revenue discontinued operations</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Revenue</b>		<b>1</b>	<b>4</b>	<b>2</b>	<b>4</b>

### 4 Production Expenses

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Lulita		(1)	5	(1)	5
<b>Total production expenses continued operations</b>		<b>(1)</b>	<b>5</b>	<b>(1)</b>	<b>5</b>
<b>Total production expenses discontinued operations</b>	<b>2</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>
<b>Total production expenses</b>		<b>(1)</b>	<b>5</b>	<b>(1)</b>	<b>6</b>

### 5 Exploration and Evaluation Expenses

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Acquisition of seismic data, analysis and general G&G costs		-	1	-	1
Other exploration and evaluation costs		0	0	0	0
<b>Total exploration and evaluation costs continued operations</b>		<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>Total exploration and evaluation costs discontinued operations</b>	<b>2</b>	<b>(0)</b>	<b>(1)</b>	<b>(0)</b>	<b>(2)</b>
<b>Total exploration and evaluation costs</b>		<b>-</b>	<b>(0)</b>	<b>-</b>	<b>(1)</b>

## 6 Payroll Expenses

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Salaries		(2)	(3)	(5)	(6)
Social security tax		(0)	(2)	(1)	(2)
Pension costs		(0)	(0)	(0)	(0)
Costs relating to share-based payments		–	(11)	–	(13)
Other personnel expenses		(0)	0	(0)	(0)
<b>Total personnel expenses continued operations</b>		<b>(3)</b>	<b>(17)</b>	<b>(6)</b>	<b>(21)</b>
<b>Total personnel expenses discontinued operations</b>	<b>2</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Total personnel expenses</b>		<b>(3)</b>	<b>(17)</b>	<b>(6)</b>	<b>(21)</b>
Average number of employees, continued operations		8	7	8	7
Average number of employees, discontinued operations		–	–	–	–
Average number of employees		8	7	8	7

Share based payments relate to the option program decided at the EGM in January 2016 for the benefit of the executive management. This option programme was in March 2017 extended until March 2019.

## 7 Other Operating Expenses

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Premises		(1)	(0)	(1)	(0)
IT expenses		(1)	(0)	(1)	(1)
Travel expenses		(0)	(1)	(0)	(1)
Office cost		(0)	(0)	(0)	(0)
Consultant fees		(5)	(7)	(8)	(13)
Other operating expenses		(1)	(1)	(1)	(4)
<b>Total other operating expenses continued operations</b>		<b>(7)</b>	<b>(10)</b>	<b>(13)</b>	<b>(19)</b>
<b>Total other operating expenses discontinued operations</b>	<b>2</b>	<b>(0)</b>	<b>(1)</b>	<b>(0)</b>	<b>(3)</b>
<b>Total other operating expenses</b>		<b>(8)</b>	<b>(11)</b>	<b>(13)</b>	<b>(22)</b>

## 8 Other (Losses) / Gains

NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Total other (losses)/gains continued operations		-	-	-	-
Total other (losses)/gains discontinued operations	2	-	0	-	112
<b>Total other (losses) / gains</b>		-	0	-	112

## 9 Financial Income and Expenses

Financial Income NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Interest income		1	0	2	0
Currency translation income		43	30	58	55
<b>Total financial income continued operations</b>		<b>44</b>	<b>30</b>	<b>61</b>	<b>55</b>
<b>Total financial income discontinued operations</b>		<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Total financial income</b>	2	<b>45</b>	<b>30</b>	<b>61</b>	<b>56</b>

Financial Expenses NOK million	Note	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
<b>Continued operations</b>					
Interest expense from bond loans		(4)	(10)	(7)	(21)
Interest expenses current liabilities		(0)	(0)	(0)	(0)
Accretion expense related to asset retirement obligations		(0)	(0)	(0)	(0)
Currency translation expense		(15)	(39)	(62)	(67)
Other financial expenses		(1)	0	(2)	1
<b>Total financial expenses continued operations</b>		<b>(20)</b>	<b>(49)</b>	<b>(72)</b>	<b>(87)</b>
<b>Total financial expenses discontinued operations</b>	2	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>
<b>Total financial expenses</b>		<b>(21)</b>	<b>(49)</b>	<b>(72)</b>	<b>(87)</b>
<b>Net financial items continued operation</b>					
<b>Net financial items discontinued operation</b>	2	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Net financial items</b>		<b>23</b>	<b>(19)</b>	<b>(11)</b>	<b>(31)</b>

## 10

## Tax

Income Tax NOK million	Q2 2018	Q2 2017	YTD Q2 2018	YTD Q2 2017
Income (loss) before tax total operations	14	(25)	(29)	47
Income tax benefit / (expense) total operations	-	11	(0)	16
Equivalent to a tax rate of	0.0 %	43.9 %	0.0 %	-34.6 %

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 30.06.18 NOK million	Offshore		Onshore	
	Recognised	Un-Recognised	Recognised	Un-Recognised
<b>Norway (offshore 55% / onshore 23%)</b>				
Norwegian Energy Company ASA	-	-	-	529
Altinex AS	-	-	-	-
<b>Denmark (offshore 52% / onshore 25%)</b>				
Noreco Denmark A/S	-	-	-	-
Noreco Oil Denmark A/S ( Chapter 2, 25%)	-	405	-	-
Noreco Oil Denmark A/S ( Chapter 3a, 52%)	-	4 860	-	-
Noreco Petroleum Denmark A/S ( Chapter 2, 25%)	-	15	-	-
Noreco Petroleum Denmark A/S ( Chapter 3a, 52%)	-	794	-	-
<b>UK (offshore 30% / onshore 10%)</b>				
Norwegian Energy Company (UK) Ltd.	-	462	-	462
Noreco Oil (UK) Ltd.	-	767	-	594
<b>Total tax loss carry forward</b>	-	<b>7 303</b>	-	<b>1 585</b>

Tax loss carry forwards in the Danish offshore tax regime of NOK 5 654 million and NOK 420 million has been calculated according to Chapter 3A and Chapter 2 respectively in the Danish Hydrocarbon Taxation Act (kulbrinteskatteloven). Current forecasts also indicate that the remaining tax loss carry forwards in Denmark and the UK will not be utilized until enhanced reserves and production base have been established. 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 through future taxable profits is probable.

## 11 Property, Plant and Equipment

NOK million	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.18	12	(0)	12
Additions	–	0	0
Disposals	–	(0)	(0)
Currency translation adjustment	(1)	(0)	(1)
<b>Acquisition costs 30.06.18</b>	<b>11</b>	<b>(0)</b>	<b>11</b>
<b>Accumulated depreciation and write-downs</b>			
Accumulated depreciation and write-downs 01.01.18	(1)	0	(1)
Depreciation	(0)	(0)	(0)
Currency translation adjustment	1	0	1
<b>Accumulated depreciation and write-downs 30.06.18</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Book value 30.06.18</b>	<b>11</b>	<b>0</b>	<b>11</b>

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

NOK million	30.06.18	31.12.17
<b>Non-current assets</b>		
Other receivables	–	–
<b>Total non-current receivables</b>	<b>–</b>	<b>–</b>
<b>Current assets</b>		
Trade receivables	0	2
Receivables from operators relating to joint venture licences	(0)	0
Underlift of oil/NGL	0	1
Prepayments	1	0
Other receivables*	170	171
<b>Total trade receivables and other current receivables</b>	<b>172</b>	<b>174</b>

\*) The awarded Siri claim of USD 20,7 million. The change from YE is currency loss only.

13

## Restricted Cash, Bank Deposits, Cash and Cash Equivalents

## Restricted Cash, Bank Deposits, Cash and Cash Equivalents

NOK million

30.06.18

31.12.17

**Non-current assets**

Restricted cash pledged as security for abandonment obligation in Denmark <sup>1)</sup>	556	578
Other restricted cash and bank deposits	19	19
<b>Total non-current restricted cash</b>	<b>575</b>	<b>598</b>

**Current assets**

Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	2	2
<b>Total current restricted cash</b>	<b>2</b>	<b>2</b>

Unrestricted cash, bank deposits, cash equivalents

102

133

**Total bank deposits****678****733****Restricted cash**

Not included in above is a deposit to the benefit of Noreco made by Awilhelmensen Special Opportunities AS and QVT Finacial LP in relation to an agreed secured minimum payment of USD 15 million on the Siri Insurance Claim less legal fees. The deposit will remain if the Danish Appeals permission Board permits the appeal to the Supreme Court of Denmark .

- 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 for the 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	30.06.18		31.12.17	
	Principal amount	Book value	Principal amount	Book value
NOR10	-	-	-	-
<b>Total non-current bonds</b>	-	-	-	-
Current Debt NOK million	Principal amount	Book value	Principal amount	Book value
NOR10	161	153	161	155
<b>Total current bonds</b>	<b>161</b>	<b>153</b>	<b>161</b>	<b>155</b>
<b>Total borrowings</b>	<b>161</b>	<b>153</b>	<b>161</b>	<b>155</b>

## 14.2 Subsequent Measurement and Events in Second 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 second quarter 2018:

NOR10	98,63 %
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It is assumed that the change in fair value in the second quarter 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	30.06.18	31.12.17
Trade payable	2	5
Liabilities to operators relating to joint venture licences	(0)	0
Overlift of oil/NGL	(0)	(0)
Accrued interest	5	3
Salary accruals	0	0
Public duties payable	1	1
Other current liabilities	18	20
<b>Total other current liabilities</b>	<b>27</b>	<b>30</b>



## 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 30.06.2018

NOK million	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss	0		-	
- Underlift of oil		2		2
<b>Total assets</b>	<b>0</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives		-		-
- Bond loans			153	153
<b>Total liabilities</b>	<b>-</b>	<b>(0)</b>	<b>153</b>	<b>153</b>

On 31.12.2017

NOK million	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Quoted shares		-		-
- Underlift of oil		2		2
<b>Total assets</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives		-		-
- Bond loans			155	155
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>155</b>	<b>155</b>

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

## 16.2 Financial Instruments by Category

On 30.06.2018 NOK million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	172		172
Restricted cash	577		577
Bank deposits, cash, cash equivalents and quoted shares	102	0	102
<b>Total</b>	<b>850</b>	<b>0</b>	<b>850</b>

  

NOK million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Bonds		153	153
Other interest bearing debt	(1)		(1)
Trade payables and other current liabilities	27	0	27
<b>Total</b>	<b>26</b>	<b>153</b>	<b>179</b>

  

On 31.12.2017 NOK million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
<b>Assets</b>			
Trade receivables and other current assets	173	2	174
Restricted cash	600		600
Bank deposits, cash and cash equivalents	133		133
<b>Total</b>	<b>906</b>	<b>2</b>	<b>908</b>

  

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

## 16.3 Financial Instruments – Fair Values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 30 June 2018:

NOK million	Carrying Amount	Fair Value
<b>Financial assets</b>		
Trade receivables and other current assets	172	172
Restricted cash	577	577
Bank deposits, cash, cash equivalents and quoted shares	102	102
<b>Total</b>	<b>850</b>	<b>850</b>
<b>Financial liabilities</b>		
Bond loans	172	172
Other interest bearing debt	577	577
Trade payables and other current liabilities	102	102
<b>Total</b>	<b>180</b>	<b>180</b>

## 17

## Asset Retirement Obligations

NOK million	30.06.18	31.12.17
Balance on 01.01.	593	563
Provisions and change of estimates made during the year	(1)	(4)
Accretion expense	(0)	(0)
Abandonment cost paid	-	(9)
Currency translation	(21)	43
<b>Total provision made for asset retirement obligations</b>	<b>571</b>	<b>593</b>

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 30.06.2018 is NOK 556 million for Nini/Cecilie and NOK 15 million for Lulita.

**18** Shares and Share Capital

<b>NOK million</b>	<b>No. of Shares</b>	<b>Share Capital</b>
31 December 2017	7 194 730	72
Change in share capital in 2018		
Number of shares and share capital 30 June 2018	7 194 730	72

**19** Subsequent Events

Noreco has summoned bondholders in NOR10 to a bondholders meeting to be held on 4 September 2018 in which Noreco wishes to extend the maturity of the bond with 6 months. Noreco have received voting undertakings in favour of the proposals from the largest bondholders.

## Information About Noreco

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Website [www.noreco.com](http://www.noreco.com)  
Org. number NO 987 989 297 MVA

### Financial Calendar 2018

15 February Q4 2017 Report  
31 May Q1 2018 Report  
28 June Annual General Meeting  
23 August Q2 2018 Report  
15 November Q3 2018 Report

### Board of Directors Noreco

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

### Noreco Management

Frederik Rustad Managing Director

### Investor Relations

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### Annual Reports

Annual reports for Noreco are available on [www.noreco.com](http://www.noreco.com)

### Quarterly publications

Quarterly reports and supplementary information for investors and analysts are available on [www.noreco.com](http://www.noreco.com).  
The publications can be ordered by e-mailing [ir@noreco.com](mailto:ir@noreco.com).

### News Releases

In order to receive news releases from Noreco, please register on [www.noreco.com](http://www.noreco.com) or e-mail [ir@noreco.com](mailto:ir@noreco.com).

