NORECO NORWAY AS

ANNUAL REPORT
2016

Noreco Norway AS
Nedre Vollgate 1
0158 Oslo

www.noreco.com

2016

CONTENT

DIRECTOR'S REPORT

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NORECO NORWAY AS

Noreco Norway AS was established in 2004 as a wholly owned subsidiary of Altinex ASA. Altinex ASA is a wholly owned subsidiary of Norwegian Energy Company ASA ("Noreco") a company quoted on the Oslo Stock Exchange. The company has been focusing on exploration for and production of hydrocarbon resources on the Norwegian continental shelves.

Due to a number of unplanned events in Noreco, including technical issues at producing fields, reduced reserves, oil price development and lack of exploration success, Noreco in late 2014 had to realise the lack of ability to service its debt. Consequently Noreco entered into a dialogue with its creditors.

In March 2015 a financial restructuring of Noreco and the company was agreed, 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 changed borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. For Noreco Norway, the restructuring also had the following implications:

Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.

In March 2016 the bondholders agreed to the summons presented including the sale of all hydrocarbon activities and a repayment schedule with the following main elements:

Subject to the Transactions being carried out and the Issuer receiving the Tax Refund and the Exploration Tax Refund, the Issuer estimates the aggregate of:

- *(i) NOK 18 million in free cash at the disposal of the Issuer following the Transactions;*
- *(ii) The Exit Tax Refund; and*
- *(iii) The net Exploration Tax Refund, for 2015*
- *(iv) The highest of NOK 33.2M or 30% of a potential Zidane success payment*

After which NOR06 has been satisfied.

Noreco Norway has following the transaction with Det Norske Oljeselskap ASA (Detnor) ceased all hydro carbons activities and management has focused on monetising the tax loss and other remaining assets.

The following payments were made to NOR06 bondholders in 2016:

- On 6 March 2016 NOK 173 million following the sale of Oselvar was paid in cash towards interest and principal amount on NOR06.
- On 30 September 2016 the company made a cash payment of NOK 18 million following the approved sale of the exploration activities to Det norske oljeselskap
- On 30 November 2016 the company made a cash payment of NOK 8.6 million on NOR06 following the settlement of the exploration loan facility.

Outstanding principal amount at the end of 2016 is NOK 474 million including PIK'ed interest.

The company seeks early tax assessment and subsequent dissolution of the company during the spring of 2017. The Company will be settling NOR06 in accordance with the approved bondholder proposal of 16 March 2016. The amount to be paid out is expected to be NOK 413 mill comprising exit refund and a further amount from the Zidane Agreement.

Due to uncertainties relating to the Zidane payment at the end of the year the expected total proceeds from this agreement has not been included in the accounts.

Based on above the accounts have not been prepared on a going concern basis.

FINANCIAL RESULTS FOR 2016

Due to the disposal of a significant part of the activities, the accounts are presented with continued and discontinued operations. Due to the fact that all hydrocarbon activities, including all employees, have been disposed, of the company only has financial activities.

Other operating expenses amounted to NOK 4 million in 2016 and consist of consultancy fees compared to NOK 7 million in 2015.

Net financial items in 2016 amounted to NOK 46 million including NOK 14 million related to the change in fair value of the bond loan.

The company's **net result** for the year from continued operations amounted to a loss of NOK 37 million compared to a profit of NOK 50 million in 2015 mainly related to re-valuation of the bond loan.

Result from discontinued operations amounted to a gain NOK 21 million compared to a loss of NOK 284 million in 2015. The accounts for 2015 were prepared under the assumption of the sale of all activities to Djerv, together with a consideration of NOK 74 million. This transaction, however was not approved by the bondholders and the hydro carbon activities were sold to Detnor for a consideration of NOK 44 million. The reversal of this difference in consideration has influenced the result for 2016.

Net result for the full year 2016 was a loss of NOK 16 million, compared to a loss of NOK 237 million last year.

Net cash flow from operations in 2016 amounted to NOK 246 million. Cash and cash equivalent excluding restricted cash of NOK 2 million was NOK 6 million at year end 2016, down from NOK 100 million at the end of 2015 excluding restricted cash of NOK 179 million.

The **bond loan's** book value was NOK 377 million (principal amount NOK 474 million) at the end of 2016 compared to book value of NOK 527 million (principal amount of NOK 637 million) at the end of 2015. The book value of the bond loan is, as of the end of 2016, based on the expected repayment from exit refund. Due to uncertainties any proceeds from the sale of Zidane as described in the approved bondholder proposal as of 16 March 2016 has not been included in the valuation but is expected to be included in a settlement in 2017.

FINANCIAL RISK

Noreco Norways's most significant risk factor is related to tax.

HEALTH, ENVIRONMENT AND SAFETY

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

In first half of 2016 Noreco Norway was involved in exploration for oil and gas which could cause emissions to the sea and air. Noreco's operations were in accordance with all regulatory requirements, and there were no breaches of these requirements in 2016.

PERSONNEL RESOURCES AND WORKING ENVIRONMENT

As a consequence of the new strategy, the company no longer has any employees. At the start of 2016 the company had 21 employees.

The company's board of directors consists of one woman and two men, all elected by shareholders.

RESEARCH AND DEVELOPMENT

The company no longer has any activity within research and development.

ALLOCATIONS

The result for the year for Noreco Norway AS in 2016 was a loss of NOK 16 million. The board proposes the following allocations:

Transfer to other equity: NOK 16 million.

The company's total equity as of 31.12.2016 is NOK -16 million.

OUTLOOK

During the next twelve months the company will seek tax refund and settle the bond loan according to summons from March 2016 after which the company will be liquidated.

Approved by the board 27 April 2017

Silje Augustson	Riulf Frederik Rustad	Roar Flom
Chair of the board	*Board member*	*Board member*

STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

NOK million	Note	2016	Re-presented* 2015
Continued operations			
Revenue		-	-
Other operating expenses	5	(4)	(7)
Total operating expenses		**(4)**	**(7)**
Operating result before depreciation and write-downs (EBITDA)		**(4)**	**(7)**
Net operating result (EBIT)		**(4)**	**(7)**
Financial income	6	2	337
Financial expenses	6	(48)	(262)
Net financial items		**(46)**	**75**
Result before tax (EBT)		**(49)**	**68**
Income tax benefit / (expense)	7	12	(18)
Net result for the period continued operation		**(37)**	**50**
Discontinued operation			
Profit (loss) from discontinued operation (net of income tax)	4	21	(284)
Net result for the period		**(16)**	**(237)**
Total comprehensive income for the period (net of tax)		**(16)**	**(237)**
*) represented due to discontinued operations			
Earnings per share (NOK 1)			
Basic	16	(115)	(1 678)
Diluted	16	(115)	(1 678)
Earnings per share continuing operation (NOK 1)			
Basic	16	(263)	352
Diluted	16	(263)	352

STATEMENT OF FINANCIAL POSITION

NOK million	Note	31.12.16	31.12.15
Non-current assets			
Licence and capitalised exploration expenditures	8	0	0
Deferred tax assets	7	0	350
Property, plant and equipment	9	0	0
Restricted cash	11,14	2	2
Total non-current assets		**2**	**353**
Current assets			
Assets held for sale		0	12
Tax refund	7	397	119
Trade receivables and other current assets	10,14	1	3
Restricted cash	11,14	0	177
Bank deposits, cash and cash equivalents	11,14	6	100
Total current assets		**404**	**412**
Total assets		**406**	**764**
Equity			
Share capital	16	1 234	1 234
Other equity		(1 249)	(1 234)
Total equity		**(16)**	**0**
Non-current liabilities			
Deferred tax	7	23	0
Asset retirement obligations	15	0	0
Bond loan	12,14	0	367
Total non-current liabilities		**23**	**367**
Current liabilities			
Liabilities held for sale		0	107
Bond loan	12,14	377	160
Other interest bearing debt	12,14	11	110
Trade payables and other current liabilities	13,14	10	19
Total current liabilities		**399**	**397**
Total liabilities		**422**	**763**
Total equity and liabilities		**406**	**764**

STATEMENT OF CHANGES IN EQUITY

NOK million	Share capital	Other equity	Total
2015			
Equity on 01.01.2015	**1 131**	**(1 006)**	**125**
Net result for the period		(237)	(237)
Other comprehensive income for the period (net of tax)			
Total comprehensive income for the period (net of tax)	**-**	**(237)**	**(237)**
Transactions with owners			
Proceeds from share issued	103	-	103
Share-based incentive program	-	9	9
Total transactions with owners for the period	**103**	**9**	**112**
Equity on 31.12.2015	**1 234**	**(1 234)**	**0**
2016			
Equity on 01.01.2016	**1 234**	**(1 234)**	**0**
Net result for the period		(16)	(16)
Comprehensive income for the period (net of tax)			
Total comprehensive income for the period (net of tax)	**-**	**(16)**	**(16)**
Transactions with owners			
Proceeds from share issued			
Total transactions with owners for the period	**-**	**-**	**-**
Equity on 31.12.2016	**1 234**	**(1 250)**	**(16)**

STATEMENT OF CASH FLOWS

NOK million	Note	2016	2015
Net result for the period		(16)	(237)
Income tax benefit	7	(23)	(199)
Adjustments to reconcile net result before tax to net cash flows from operating activities:			
Tax refunded	7	119	314
Write-downs and reversal of write-downs	9	(1)	3
Expensed exploration expenditures previously capitalised	8	7	329
Share-based payments expenses		-	9
Unrealized loss (gain) related to financial instruments		-	-
Change in fair value of bond	12	18	168
Gain on extinguishment of debt	12	-	(278)
Paid/received interests and borrowing cost - net		-	5
Interests received		-	0
Effect of changes in exchange rates		1	(2)
Accretion expense related to asset retirement obligations	15	-	5
Changes in working capital			
Changes in trade receivable		2	10
Changes in trade payables		-	(3)
Changes in other current balance sheet items		139	(26)
Net cash flow from operations		**246**	**99**
Cash flows from investing activities			
Proceeds from sale of fixed assets	9	0	173
Purchase of tangible assets	9	-	(1)
Purchase of intangible assets	8	-	(71)
Net cashflow from divestment of assets		(44)	-
Net cash flow used in investing activities		**(44)**	**102**
Cash flows from financing activities			
Issue of share capital	16	-	73
Proceeds from utilisation of exploration facility	12	-	110
Proceeds from utilisation of overdraft facility		-	-
Repayment of bonds		(180)	-
Repayment of exploration facility	12	(110)	(284)
PIK interest		16	-
Interest paid		(23)	(16)
Net cash flow from (used) in financing activities		**(297)**	**(117)**
Net change in cash and cash equivalents		(95)	83
Cash and cash equivalents at the beginning of the period		100	17
Cash and cash equivalents at end of the year		**6**	**100**

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NOTES

NOTES

1 Accounting principles

Noreco Norway AS is a private limited company registered in Norway, with headquarters in Nedre Vollgate 1, 0158 Oslo. Following the restructuring in March 2015, the company's objective has been changed into monetizing the company's assets with the aim to repay outstanding debt. Any surplus cash will be paid out to shareholders or invested in relevant activities. The company is a 100% ultimately owned subsidiary of Norwegian Energy Company ASA.

The consolidated financial statement for 2016 was approved by the Board of Directors on 27 April 2017.

1.1 Basis for preparation

The annual financial statement for 2016 is prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU (IFRS). The company does also provide information which is obligated in accordance with the Norwegian Accounting Act and associated N-GAAP standards. The financial statement in this report, including comparative information, are prepared based on IFRSs effective for periods ending on 31 December 2016.

In accordance with the Norwegian Accounting Act, section 3-3a, the board of directors confirms that the financial statement has not been prepared under the presumption of going concern, and that this is the basis for the preparation of the financial statement. The Company is claiming Exit refund in 2017 and has consequently started the process of closing down the entity. The financial solidity and the company's cash position are considered satisfactory in regards to the planned activity until the entity is closed down during.

The Board of Directors is of the opinion that the financial statements give a true and fair view of the Company's assets, debt, financial position and financial results. The Board of Directors are not aware of any factors that materially affect the assessment of the Company's position as of 31 December 2016, besides what is disclosed in the Director's report and the financial statements.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding. Certain amounts in comparable periods have also been revised to conform to current period presentation.

1.2 New standards and interpretations not yet adopted

IASB has issued multiple new standards and interpretations, which are described below. These standards are not yet effective, and the since the company is closing down the company has not early adopted these standards.

Standards issued but not yet effective, which the company has not early adopted

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: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. 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 is not yet endorsed by the EU. Since the company is closing down early adoption has not been considered.

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 is not yet endorsed by the EU. Since the company is closing down early adoption has not been considered.

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 recognised. The standard requires adoption either on a full retrospective basis, or retrospectively with the cumulative effect of initially recognising the standard as an adjustment to retained earnings at the date of initial application, and if so with a number of practical expedients in transitioning existing leases at the time of initial application. The standard is not yet endorsed by the EU. Since the company is closing down early adoption has not been considered.

1.3 Segment reporting

The company's segments were established on the basis of the most appropriate distribution of resource and result measurement. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO) of the Noreco Group. During 2016 Noreco Norway ceased its oil and gas activities and has since focused on implementing the new strategy, and consequently the company is considered as a single operating segment.

1.4 Foreign currency translation

a) Functional and presentation currency
The financial statements are presented in Norwegian Kroner (NOK), which is the company's presentation currency and functional currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

1.5 Impairment of non-financial assets

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

1.6 Financial assets

1.6.1 Classification

The company classifies financial assets in the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables', "restricted cash" and 'cash and cash equivalents' in the balance sheet.

1.6.2 Recognition and measurement

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

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

1.7 Impairment of financial assets

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

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

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

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

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition.

1.9 Share capital and share premium

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

1.10 Trade payables

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

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

1.11 Borrowings

Borrowings are recognised initially at fair value. 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.

Borrowings are classified as non-current if contractual maturity is more than 12 months from the balance sheet date. If the company is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12 months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date. If the breach which results in any reclassification is related to a loan with cross-default terms in the loan agreement, all loans with the same cross-default terms are reclassified.

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

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

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

1.12 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

1.13 Current and deferred income tax

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

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets, and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using nominal tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Companies engaged in petroleum production and pipeline transportation on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 53 per cent (2015: 51 per cent). The special tax is applied to relevant income in addition to the standard 25 (2015: 27 per cent) per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. As of 31 December 2016, the deferred tax and deferred tax an asset relating to onshore activity in Norway was calculated with a tax rate of 25 per cent.

The basis for computing the special petroleum tax is the same as for income subject to ordinary income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at 5.5 per cent per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely. In accordance with the Norwegian Petroleum Taxation Act, sale of oil is taxed according to norm price. In the financial statements, the difference between norm price and actual obtained price are treated as a permanent difference. Losses carry forward are calculated with a fixed interest rate per year.

Interest expenses on interest-bearing debts are distributed between onshore and offshore activities. The tax allowance for the offshore debt interests are calculated as interest expense multiplied by 53 per cent of the ratio between the tax value of the offshore asset and average interest-bearing debt. The remaining net financial expenses are allocated to onshore. Net finance costs onshore can be transferred to the continental shelf (25 per cent), ref. the Norwegian Petroleum Taxation Act §3d. If interest expense is to related parties and net interest expense exceeds NOK 5 million, they can not be deducted for the amount that exceeds 30 per cent of ordinary income, adjusted for interest and tax depreciation. This rule applies from 2014, but the companies covered by the Norwegian Petroleum Taxation Act § 3 d are as of today exempt. The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of losses that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses related to exploration activity on the Norwegian continental shelf, the company applies for a refund of the tax amount for such a loss. The receivable that then occurs is recognised as short term claim for the current assets, under the line “Tax receivable”. If a business liable for special tax is discontinued, and a loss has not been covered, the Company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Act §3c. The tax refund will be determined by the authorities, and will be received at the end of the year following the year of discontinuance of petroleum activity in the company.

1.14 Provisions

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

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

1.14.1 Asset retirement obligations

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

1.15 Contingent liabilities and assets

Contingent liabilities are defined as:

- possible obligations that arise from past events, whose existence depends on uncertain future events.
- present obligations which have not been recognised because it is not probable that they will result in a payment.
- the amount of the obligation cannot be measured with sufficient reliability.

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

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

1.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below.

1.17 Interest income

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

1.18 Leases

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

1.19 Statement of cash flow

The statement of cash flow is prepared according to the indirect method. See Note 1.11 for the definition of "Cash and cash equivalents".

1.20 Discontinued operations

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

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

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. Comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Since the new strategy for Noreco has been implemented by Noreco effectively ceasing to be an E&P company, by selling, relinquishing, termination or forfeiture, all its E&P activitiesis classified as a discontinued operation.

2 Fair value estimation

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specified valuation techniques used to value financial instruments include:

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

Level 3: Inputs for other assets or liabilities that are not based on observable market data
Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level.

See Note 14 for fair value hierarchy and further information.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This also includes the evaluation as held for sale and discontinued operations. For more information please refer to note 5.

3.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Estimated recoverable amount on property, plant and equipment
The company performs impairment testing on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverable amount from cash generating units are determined through calculations of value-in-use. These calculations require the use of estimates.

b) Exit-refund
The company has seized being an E&P company, and has during 2016 started the process of claiming its tax positions.
The EXIT refund will be finalised in 2017 and is expected to be repaid to Noreco Norway from the Government in 2017.

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

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

3.2 Critical judgements in applying the entity's accounting policies

a) Impairment testing of financial assets
The company follows the guidance of IAS 39 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement.

b) Method for valuation of intangible assets
In relation to impairment testing of intangible assets, different valuation methods, adjusted to the available information available for the different assets, are used. A significant degree of judgement is used to determine the appropriate method, which is dependant on maturity, geographical location, available budgets, taxation regulations etc. Changes in methods will in certain cases have a significant impact on the valuation used as basis for the Company's recorded values.

4 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. According to the plan Noreco Norway should take over the NOR06 bond loan at a principal of NOK 618 million. The restructuring proposal was approved in March 2015, and Noreco has since focused on implementing a new strategy as a consequence.

The new strategy is to repay the bonds within three years, with part payment whenever the cash flow allows it, and secure a return of investment to the shareholders. During 2015 the company implemented the plan by ceasing to be an E&P company, specifically by selling its share in the oil producing licenses Oselvar and Enoch to CapeOmega (The Oselvar sale was completed in Q4 2015; the Enoch sale was completed in Q1 2016) and the entire E&P operation in Norway (license shares, operatorships, staff contracts and other contracts related to the operation) to Det norske oljeselskap ASA (Detnor, now AkerBP). The latter agreement was announced on the 2nd of March 2016. The deal included a sale of its remaining exploration licences, all employees and a negative consideration of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction was 1 January 2016. The transaction entered into with Detnor received the nessecary approvals from the Ministry of Petroleum and Energy and the Ministry of Finance at the end of second quarter, and the deal was consequently completed at the end of second quarter 2016. The DetNor transaction constitutes a ceasing of all of Noreco Norway's petroleum activities, and Noreco has started the process of claiming "Exit-refund" as of 31 december 2016.

(NOK million)	2016	2015
Revenue	**0**	**57**
Production expenses	-	(3)
Exploration and evaluation expenses [1]	(17)	(374)
Payroll expenses	(15)	(45)
Other operating expenses	(15)	(23)
Other (losses) / gains	64	(78)
Total operating expenses	**16**	**(523)**
Operating result before depreciation and write-downs (EBITDA)	**16**	**(466)**
Depreciation	-	-
Write-downs and reversals of write-downs	-	(3)
Net operating result (EBIT)	**16**	**(469)**
Financial income	-	6
Financial expenses	(5)	(42)
Net financial items	**(5)**	**(36)**
Result before tax (EBT)	**11**	**(504)**
Income tax benefit / (expense)	10	220
Net result for the period	**21**	**(284)**
Earnings per share discontinued operation (NOK 1)		
Basic	149	(2 014)
Diluted	149	(2 014)
Average number of employees, discontinued operations	-	28

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

5 Other operating expenses

(NOK million)	2016	2015
Consultant fees	(4)	(7)
Total other operating expenses continued operation	**(4)**	**(7)**
Total other operating expenses discontinued operation	**(15)**	**(23)**
Total other operating expenses	**(19)**	**(30)**

6 Financial income and expenses

Financial income

(NOK million)	2016	2015
Interest income	-	8
Interest income from other group companies	-	1
Change in fair value of bond debt [1]	-	278
Currency translation income	-	(1)
Other financial income	2	50
Total financial income continued operation	**2**	**336**
Total financial income discontinued operation	**-**	**6**
Total financial income	**2**	**343**

1) See note 12

Financial expenses

(NOK million)	2016	2015
Interest expense from bond loans	(34)	(33)
Interest expense to other group companies	-	(11)
Change in fair value of bond debt [1]	(14)	(218)
Total financial expenses continued operation	**(48)**	**(262)**
Total financial expenses discontinued operation	**(5)**	**(42)**
Total financial expenses	**(53)**	**(304)**
Net financial items continued operation	**(46)**	**74**
Net financial items disccontinued operation	**(5)**	**(36)**
Net financial items	**(51)**	**39**

1) See note 12

7 Tax

Tax expenses

(NOK million)	2016	2015
Change in deferred tax	374	(80)
Tax refundable	(397)	(119)
Other items	1	-
Tax expenses	**(22)**	**(199)**
Result before tax	(39)	(436)
Effective tax percentage	57 %	46 %

Reconciliation of effective tax rate

(NOK million)	2016	2015
Income (loss) before tax	(39)	(436)
Offshore losses carry forward (25%/27%)	(10)	(118)
Offshore losses carry forward (53%/51%)	(21)	(222)
Total	(30)	(340)
Recognized change deferred tax from previous years	-	-
Utilised uplift	-	-
Effect financial items	27	(25)
Permanent differences	(23)	169
Other items	4	(3)
Tax expense	**(22)**	**(199)**

The recognition of deferred tax assets is based on the expectation that sufficient taxable income will be available through future taxable income in Norway, or carry loss forward will be paid in cash from government if Noreco is terminating exploration activity in Norway.

Companies engaged in petroleum production on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 53 per cent (from 2017: 54 per cent). The special tax is applied to relevant income in addition to the standard 25 (from 2017: 24 per cent) per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. As of 31 December 2016, the deferred tax and deferred tax asset relating to onshore activity in Norway was calculated with a tax rate of 24 per cent.

8 Intangible non-current assets

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.16	0
Additions	7
Expensed exploration expenditures previously capitalised	(7)
Acquisition costs 31.12.16	**(0)**
Accumulated depreciation and write-downs	
Accumulated depreciation and write-downs 01.01.16	-
Accumulated depreciation and write-downs 31.12.16	**-**
Book value 31.12.16	**(0)**

(NOK million)	Licence and capitalised exploration expenditures
Acquisition costs 01.01.15	259
Additions	71
Expensed exploration expenditures previously capitalised	(329)
Acquisition costs 31.12.15	**0**
Accumulated depreciation and write-downs	
Accumulated depreciation and write-downs 01.01.15	-
Accumulated depreciation and write-downs 31.12.15	**-**
Book value 31.12.15	**0**

9 Property, plant and equipment

Property, plant and equipment as at 31 December 2016

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.16	77	1	77
Additions	-	(6)	(6)
Disposals	(156)	6	(150)
Reclassified to assets held for sale	78	1	79
Acquisition costs 31.12.16	**(0)**	**0**	**0**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.16	(77)	(1)	(77)
Depreciation	(77)	(1)	(78)
Disposals	156	-	156
Write-downs	-	1	1
Reclassified to assets held for sale	(78)	(1)	(79)
Accumulated depreciation and write-downs 31.12.16	**0**	**0**	**0**
Book value 31.12.16	**0**	**0**	**0**
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

Property, plant and equipment as at 31 December 2015

(NOK million)	Production facilities	Machinery and equipment	Total
Acquisition costs 01.01.15	1 211	-	1 211
Additions	0	1	1
Revaluation abandonment assets	3		3
Disposals	(1 135)	-	(1 135)
Reclassified to assets held for sale	-	-	-
Acquisition costs 31.12.15	**78**	**1**	**78**
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.15	(1 211)	-	(1 211)
Depreciation	-	-	-
Disposals	1 135	-	1 135
Write-downs	(3)	(1)	(3)
Accumulated depreciation and write-downs 31.12.15	**(78)**	**(1)**	**(78)**
Book value 31.12.15	**0**	**0**	**0**
Economic life	N/A	3-5 years	
Depreciation plan	UoP	Straight line	

Impairment test of property, plant and equipment
No impairment test was performed in 2016 due to all PP&E beeing either disposed of or imparied in full during 2015.

Overview of write-downs 2015 1)

(NOK million)		Write-downs before tax	Income tax benefit/ expense	Net write-downs after tax
PL048 Enoch	Discontinued operation	(3)	2	(1)
Other	Discontinued operation	(1)	1	(0)
Total write-downs 2015		**(3)**	**3**	**(1)**

1) for more information regarding the main assumptions used in the 2015 impairment test, please refer to annual statement for 2015.

10 Trade receivables and other current assets

Trade receivables and other current assets

(NOK million)	31.12.2016	31.12.2015
Trade receivables	-	2
Receivables from operators relating to joint venture licences	-	1
Other receivables	1	-
Total trade receivables and other current receivables	**1**	**3**

Ageing analysis of trade receivables and other short term receivables on 31 December 2016

			Past due			
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	> 90 days
Tax receivables	-	-	-	-	-	-
Trade receivables	1	1	-	-	-	-
Receivables from operators relating to joint venture licences	-	-	-	-	-	-
Underlift of oil/NGL	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-
Other receivables	0	0	-	-	-	-
Total	**1**	**1**	**0**	**0**	**0**	**0**

Ageing analysis of trade receivables and other short term receivables on 31 December 2015

			Past due			
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	> 90 days
Tax receivables	-	-	-	-	-	-
Trade receivables	2	2	-	-	-	-
Receivables from operators relating to joint venture licences	1	1	-	-	-	-
Underlift of oil/NGL	-	-	-	-	-	-
-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	**3**	**3**	**0**	**0**	**0**	**0**

11 Restricted cash, bank deposits, cash and cash equivalents

Restricted cash, bank deposits, cash and cash equivalents

(NOK million)	31.12.2016	31.12.2015
Non-current assets		
Other restricted cash and bank deposits	2	2
Current assets		
Other restricted cash and bank deposits (Pledged account for bondholders, withholding tax etc.)	-	177
Total restricted cash	**2**	**180**
Unrestricted cash, bank deposits and cash equivalents	**6**	**100**
Total bank deposits	**8**	**280**

Cash held in different currency

	2016		2015	
(NOK million)	Amount in currency	NOK	Amount in currency	NOK
NOK	8	8	269	269
DKK	-	-	-	-
USD	-	-	1	10
EUR	-	-	-	-
GBP	-	-	-	-
Total		**8**		**280**

There are no differences between fair value and carrying amount for cash at bank.

Overdraft facilities

As at 31 December 2016

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Unrestricted cash and cash equivalents					6
Accessible liquidity at 31.12.16					6

As at 31 December 2015

(NOK million)	Facility amount in currency	NOK	Used	Unused	Available
Exploration loan facility (1)	400	400	110	-	-
Total		400	110	-	-
Unrestricted cash and cash equivalents					100
Accessible liquidity at 31.12.15					100

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.

During 2015 and 2016 certain amendments to the exploration loan agreement was agreed and executed. In Q1 2016 the exploration loan facility amount was reduced to the actual drawn amount, and during fourth quarter 2016 the exploration was repaid in full.

12 Borrowings

12.1 Principal amounts and book values

Non-current debt	31.12.2016		31.12.2015	
(NOK million)	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated	-	-	477	367
Total non-current bonds	**-**	**-**	**477**	**367**
Exploration loan	(0)	(0)	-	-
Total non-current other interest bearing debt	**(0)**	**(0)**	**-**	**-**

Current debt				
(NOK million)	Principal amount	Book value	Principal amount	Book value
NOR06 bond loan, amended and restated [1]	474	377	160	160
Total current bonds	**474**	**377**	**160**	**160**
Exploration loan			110	110
Debt to group companies	11	11	-	-
Total current other interest bearing debt	**11**	**11**	**110**	**110**
Total borrowings	**485**	**388**	**748**	**637**

Borrowings are recognised initially at fair value. As of year end, due to the limited number of trades in NOR06 during December, valuation techniques were used in order to estimate the fair value of the bond. The valuation technique evaluates and incorporates all information published on the stock exchange. As of the end of 2016 a fair value of 80% was calculated for the amended and restated bond loan.

12.2 Financial restructuring

A financial restructuring of the Noreco group was completed in the first quarter 2015. For more information see Quarterly report for first quarter 2015 for Noreco Group. For Noreco Norway, the restructuring had the following implications:

- Bond loan NOR06 changed borrower from Norwegian Energy Company ASA to Noreco Norway AS without any recourse to the parent company or other parts of the group. Noreco opted to measure the bond subsequently using the fair value option.
- Noreco Norway AS received an increased share capital of NOK 103.5 million, whereof NOK 73 million in cash and NOK 30.5 million by conversion of intercompany debt to equity.
- Nordic Trustee, on behalf of the bondholders of NOR06, was given an option to purchase all outstanding shares of and any intercompany claims on Noreco Norway AS for NOK 1. If the purchase option is exercised, the Noreco group may cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan.

12.3 Subsequent measurement

During 2016 Noreco Norway has reduced the principal amount on NOR06 to approximately NOK 474 million.

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. Due to low volumes being traded, Noreco has used valuation techniques in order to estimate the fair value on the NOR06 bond loan. The valuation technique maximizes the use of observable data, and is based on estimated repayment when receiving EXIT refund from the Norwegian tax authorities as described in note 5. Due to uncertainties relating to a possible pay out from the disposal of PL435 Zidane deal, the valuation of NOR06 at year end does not include any proceeds from this agreement. The following fair values were applied for the amended and restated bond loan at the end of 2016.

Amended and restated NOR06	80%

12.4 Assets pledged as security for interest bearing debt

Specification of assets pledged as securities:

(NOK million)	2016	2015
Collateralised debt (net book value)		
Bond loans (current and non current part, ref. note 12.1)	377	527
Exploration loan (ref. note 12.1)	-	110
Total collateralised debt	**377**	**637**
Capitalised value of assets pledged as securities		
Licence and capitalised exploration expenditures	-	-
Property, plant and equipment	-	-
Tax receivable	377	469
Cash at bank	8	280
Total capitalised value	**385**	**749**

Specification of assets pledged as securities per bond/loan:

(NOK million)	2016	2015
Bond loan NOR06 (1)		
Tax receviable	377	350
Cash at bank	8	280
Total	**385**	**630**
Exploration loan (2)		
Tax receivable	-	119
Total	**-**	**119**

1) The bond loan NOR06 is secured with pledge in the tax balances.
2) The exploration loan was during 2016 repaid in full.

12.5 Details on borrowings and payment structure

The NOR06 bond was entered into in March 2015 with a face value of NOK 618 million (principal amount including accrued, but unpaid interest and default interest until 5 March 2015 (assumed settlement date)) and a final maturity date in March 2018 (3 years after the original issue). The bond holds a fixed interest rate of 6.5 % with semi annually payments only if available cash on the proceeds accounts (and subject always to the company having a lawful level of equity), otherwise payment-in-kind (PIK). For more information regarding the NOR06 bondloan and covenants, please refer to the annual group accounts note 23.

Original payment structure loans after refinancing (NOK million):

Year	Amended and restated NOR06
2016	0
2017	0
2018	618
Total	**618**

Original interest payments after refinancing (NOK million):

Year	Amended and restated NOR06
Interest rate	**6,50 %**
2016	40
2017	40
2018	20
Total	**120**

13 Trade payables and other current liabilities

(NOK million)	31.12.16	31.12.15
Trade payable	(0)	0
Liabilities to operators relating to joint venture licences	-	2
Accrued interest	10	13
Public duties payable	-	(0)
Other current liabilities	-	3
Total other current liabilities	**10**	**19**

Trade and other payables held in currency (NOK million)	31.12.2016	31.12.2015
NOK	10	19
DKK	-	-
USD	-	-
GBP	-	-
EUR	-	-
Total	**10**	**19**

Ageing analysis of trade payables and other current liabilities on 31 December 2016

			Past due			
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	> 90 days
Trade payable	-	-	-	-	-	-
Liabilities to operators relating to joint venture licences	-	-	-	-	-	-
Overlift of oil/NGL	-	-	-	-	-	-
Accrued interest	10	10	-	-	-	-
Salary accruals	-	-	-	-	-	-
Public duties payable	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-
Total	**10**	**10**	**0**	**0**	**0**	**0**

Ageing analysis of trade payables and other current liabilities on 31 December 2015

			Past due			
(NOK million)	Total	Not past due	> 30 days	30-60 days	61-90 days	> 90 days
Trade payable	-	-	-	-	-	-
Liabilities to operators relating to joint venture licences	2	2	-	-	-	-
Overlift of oil/NGL	-	-	-	-	-	-
Accrued interest	13	13	-	-	-	-
Salary accruals	-	-	-	-	-	-
Public duties payable	-	-	-	-	-	-
Other current liabilities	3	3	-	-	-	-
Total	**19**	**19**	**0**	**0**	**0**	**0**

14 Financial instruments

14.1 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 liabilitiess
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 31.12.2016

(NOK million)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	-	-	-	-
Total assets	**0**	**0**	**0**	**0**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives	-	-	-	-
- Overlift of oil	-	-	-	-
- Bond loans	-	-	377	377
Total liabilities	**0**	**0**	**377**	**377**

As of year end, due to the limited number of trades in NOR06 during December, valuation techniques were used in order to estimate the fair value of the bond. The valuation technique evaluates and incorporates all information published on the stock exchange. For more information se note se Note 12.3

On 31.12.2015

(NOK million)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	-	-	-	-
Total assets	**0**	**0**	**0**	**0**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Interest rate swap agreements and trading derivatives	-	-	-	-
- Bond loan	-	-	527	527
Total liabilities	**0**	**0**	**527**	**527**

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.

14.2 Financial instruments by category

On 31.12.2016

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	1	-	1
Restricted cash	2	-	2
Bank deposits, cash and cash equivalents	6	-	6
Total	**9**	**0**	**9**

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bond loans	-	377	377
Other interest bearing debt	-	-	-
Debt to group companies Ringfence 1	11	-	11
Trade payables and other current liabilities	10	-	10
Total	**22**	**377**	**399**

On 31.12.2015

(NOK million)	Loans and receivables	Assets at fair value through profit or loss	Total
Assets			
Derivatives	-	-	-
Trade receivables and other current assets	3	-	3
Restricted cash	180	-	180
Bank deposits, cash and cash equivalents	100	-	100
Total	**283**	**0**	**283**

(NOK million)	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Bonds	-	527	527
Other interest bearing debt	110	-	110
Debt to group companies	-	-	-
Trade payables and other current liabilities	19	-	19
Total	**129**	**527**	**656**

14.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 31 December 2016:

(NOK million)	Carrying amount	Fair value
Financial assets:		
Trade receivables and other current assets	1	1
Restricted cash	2	2
Bank deposits, cash and cash equivalents	6	6
Total	**9**	**9**
Financial liabilities:		
Bonds	377	377
Debt to group companies	11	11
Trade payables and other current liabilities	10	10
Total	**399**	**399**

15 Asset retirement obligations

(NOK million)	31.12.16	31.12.15
Balance on 1.1.	-	73
Provisions and change of estimates made during the year	-	3
Accretion expense	-	5
Reclassified to liabilities held for sale	12	(12)
Reversed provision from disposal of assets	(12)	(69)
Total provision made for asset retirement obligations	**0**	**0**

16 Shares and share capital

(NOK million)	No. of shares	Share Capital
31 December 2015	141 001	1 234
Change in share capital in 2016		-
31 December 2016	141 001	1 234

All shares are owned by Norwegain Energy Company ASA

17 Contingencies and commitments

Zidane contingent payment
As part of the disposal of PL435 (the Zidane discovery), Noreco was entitled to a contingent payment when a PDO for the Zidane 2 discovey was approved by authorities. The payment was linked to the volumes submitted in the PDO. The contingent payment was not recognised in the accounts as of 31 December 2016. In March 2017 Noreco announced that the authorities had approved the Dvalin PDO (Zidane), see more info in note 21.

18 Operating leases

Annual lease costs related to lease agreements accounted for as operating leases	2016	2015
Office	-	4
Other	-	-

19 Related party transactions

In 2016, Noreco Norway AS had transactions with companies within the Noreco Group. All the transactions have been executed in accordance with transfer pricing regulations. Services are charged between Group companies at an hourly rate which corresponds to similar rates between independent parties.

20 Payroll and Remuneration

2016

(NOK 1 000)	Director's fees	[1] Total compensation	[2] Number of shares	[3] Number of options	Shares purchased in 2016	Period served on the board	
Current Board of directors							
Silje Christine Augustson [1]	-	-	10 000	100 000	10 000	27/10/14	-
Chair of the Board							
Roar Flom	275	275	-	-	-	27/03/15	-
Board member							
Riulf Frederik Rustad [1]	-	-	-	-	-	30/06/16	-
Board member							
Total compensation 2016	**275**	**275**	**10 000**	**100 000**	**110 000**		

1) Silje Augustson and Riulf Frederik Rustad do not receive any compensation as board members in Noreco Norway. All compensations are paid by Norwegian Energy Company ASA.
2) The number of shares in the parent company Noreco ASA owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2016.
3) Total number of options in the parent company according to the parent company's incentive arrangement
4) Figures show the net increase in share holding in 2016.

2015

(NOK 1 000) **Board of directors**	Director's fees	(1) Total compensation	(2) Number of shares	(3) Number of options and bonus shares	(4) Shares purchased in 2015	Period served on the board
Silje Christine Augustson (1)(5) Chair of the Board	-	-				27/10/14
Riulf Rustad (1) Board member	-	-	30 205		30 205	27/03/15
Roar Flom Board member	304	304				27/03/15
Total compensation 2015	**304**	**304**	**30 205**			

1) Silje Augustson and Riulf Rustad do not receive any compensation as board members in Noreco Norway. All compensations are payed by Norwegian Energy Company ASA
2) The number of shares in the parent company Noreco ASA owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2015
3) The number of options in the parent company includes bonus shares according to the Group's incentive arrangement
4) Figures show the net increase in share holding in the parent company in 2015
5) Silje Christine Augustson was elected to the board 27 October 2014, and was elected as Chair of the Board 13 January 2015 and reelected as Chair of the Board 27 March 2015

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

On EGM in June 2016 it was announced that Board member Roar Flom would receive an annual remuneration of NOK 150 000 going forward, prior to this his yearly remuneration was 400 000 a year. No other current member of the board receives any remuneration from Noreco Norway.

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

For more information on remuneration please refer to annual group accounts.

21 Subsequent events

22 March 2017 Noreco announced that the authorities had approved the Dvalin PDO (Zidane). Based on this a success payment of USD 14.32 million will be made by end of April 2017. This means that NOR06 bondholders would receive approximately NOK 36.5 million according to the amended bondholder agreement of March 16, 2016.

AUDITOR'S REPORT

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To the General Meeting of Noreco Norway AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Noreco Norway AS. The financial statements comprise:

The financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Emphasis of matter

In the Board of Director's report and the disclosures to the financial statement, the company informs that the financial statements have not been prepared on a going concern basis as the company is resolved to be liquidated during 2017. The matter does not affect our opinion on the financial statements for 2016.

Key Audit Matters

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

Company liquidation and valuation of current tax receivable
Reference Note Disclosure: 7

The key audit matter	*How the matter was addressed in our audit*
Noreco Norway AS has ceased all petroleum related activity on the Norwegian Continental Shelf following disposal of all of its remaining assets. The entity has booked a current tax receivable of NOK 397 million in the statement of financial position, which includes exit refunds	We have obtained management's memo and the underlying tax calculation used to calculate the exit refund and agreed key inputs in order to gain comfort over existence and accuracy of the receivable. We have also obtained and reviewed correspondence with the tax

as is permissible under the Norwegian tax regime. Given the tax refund is significant to the Company's financial position (98% of total assets) and involves complex tax guidance requiring judgment and interpretation, as well as warranting appropriate disclosure in the financial statements, we consider this to be a key audit matter.	authorities. Furthermore, we have involved KPMG tax expert to discuss and challenege the management on the underlying assumptions and judgments used in the tax calculation. We have also challenged management on the classification of the tax receivable (i.e. long term deferred tax asset vs. current tax receivable) and have obtained and evaluated management's assessment ensuring appropriate dislcousre in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report and statements on Corporate Governance, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance concerning the financial statements, the information that the company is being dissolved in 2017, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 27 April 2017
KPMG AS

Mads Hermansen
State Authorised Public Accountant

STATEMENT OF COMPLIANCE

STATEMENT OF COMPLIANCE

BOARD AND MANAGEMENT CONFIRMATION

Today, the board of directors and the general manager reviewed and approved the board of directors' report and the Noreco Norway AS annual financial statements as of 31 December 2016.

To the best of our knowledge, we confirm that:

- the Noreco Norway AS annual financial statements for 2016 have been prepared in accordance with IFRSs and IFRICs as adopted by the European Union (EU), and additional Norwegian disclosure requirements in the Norwegian Accounting Act, and that

- the financial statements for Noreco Norway AS have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards, and

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

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

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

27 April 2017

Silje Augustson	**Riulf Frederik Rustad**	**Roar Flom**
Chair of the board	*Board member*	*Board member*

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