NORECO

Norwegian Energy Company ASA

Third Quarter 2019

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Content

Third quarter 2019 summary

Highlights

- Completed the acquisition of Shell Olie-og Gasudvinding Danmark B.V. (SOGU) and Shell Olie- og Gasudvinding Danmark Pipelines ApS (SOGUP) and became a partner in the Danish Underground Consortium ("DUC").

- Net hydrocarbon production of 41,6 mboepd in the quarter.[2)]

- Cash flow from operations of USD 115 million in the quarter.

- Raised gross proceeds of approximately USD 510 million in a private placement and convertible bond issue.

- Secured Reserve Based Lending Facility (the "RBL Facility") with a total facility amount of USD 900 million available for debt and a letter of credit sub-limit of USD 100 million.

- Settled and repaid in full the outstanding NOR10 bond at 101.5% of par value

Financial and operational summary	*Unit*	*Q3 2019*	*Q3 2018*	*YTD 2019*	*YTD 2018*
Total revenue	USDm	160	0	161	0
EBITDA[1)]	***USDm***	***68***	***-1***	***66***	***-3***
Adj. EBITDA[1)]	***USDm***	***122***	***1***	***120***	***-1***
Net result for the period	USDm	179	-2	171	-5
Cash flow from operations	USDm	115	-2	111	-4
CAPEX[1)]	USDm	45	–	45	–
Abandonment spend[1)]	USDm	10	–	10	–
Reserved based lending	USDm	746	–	746	–
Net interest-bearing debt[1)]	USDm	795	8	795	8
Liquids production[2)]	mboepd	28,2	0,03	28,1	0,01
Gas production[2)]	mboepd	13,4	0,02	13,4	0,01
Total production[2)]	***mboepd***	***41,6***	***0,05***	***41,5***	***0,02***
Over/underlift	mboepd	4,7	0,03	4,7	0,01
Realized price liquids	USD/boe	74,8	0,0	74,8	68,2

1) See the description of "Alternative performance measures" at the end of this report for definitions. The comparative figures for previous periods have been restated.

2) Production figures reflect the contribution from the acquired DUC assets from 1 August 2019. Figures do not take into account the volume guarantee.

Financial review

Selected data from consolidated statement of comprehensive income

*All figures in USD million**	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Total revenue	160	0	161	0
EBITDA	68	-1	66	-3
EBIT	-240	-1	-243	-3
Result before tax	-224	-2	-224	-5
Net result for the period	179	-2	171	-5
Earnings per share	7,3	(0,3)	7,0	(0,7)

* As a result of the material changes in the group's business following the Shell transaction the presentation currency of the group was changed to US dollars (USD). The comparative figures for previous periods have been restated. See note 1 for more details.

The company had ***revenues*** of USD 160 million in the third quarter 2019 mainly relating to revenue from oil and gas sales from the DUC fields compared to USD 0,2 million in the third quarter 2018 and USD 1,9 million for the year 2018 which were related to revenues from Lulita.

Production expenses amounted to USD 68 million in the third quarter of 2019 compared to USD 0,1 million in the third quarter of 2018. The production expenses include USD 5 million of over-lift adjustment and USD 10 million of crude oil inventory adjustments.

Personnel expenses in third quarter was USD 14 million compared to USD 0,4 million in the third quarter in 2018 due to additional headcount and recruitment cost as a result of the acquisition, and USD 10 million share-based payment expense. Total cost for the year 2018 was USD 2 million.

Other operating expenses were a cost of USD 10 million for the end of third quarter compared to an expense of USD 1 million for the same period in 2018, the increase is mainly driven by the transaction cost related to the acquisition (USD 7 million). Total operating costs YE 2018 was USD 18 million. The operating expenses in Q3 2019 are mainly related to consulting fees. In 2018 they mainly related to litigation fees associated with the Transaction, and accrued litigation fees from pursuing the SIRI claim as well as court order legal fees.

EBITDA (operating result before depreciation and write-downs) in the third quarter 2019 was a gain of USD 68 million compared to a loss of USD 1 million in the same quarter 2018.

Impairment of USD 278 million is related to the impairment of goodwill. This goodwill was generated as a result of the acquisition of SOGU during the period and has been calculated according to the purchase price allocation of the underlying acquired assets and liabilities on a post-tax basis. As a result of the goodwill impairment being performed on a standalone basis and not taking into account the contribution from our existing Danish tax position, we are required to fully impair this goodwill as it would not be recovered without integration into the broader Noreco group.

Net Financial items amounted to an income of USD 16 million for the third quarter of 2019, compared to USD 0,4 million in the same quarter of 2018. The effect in the third quarter of 2019 is mainly due to change in market value of derivatives which primarily represents the value of our commodity price hedging, partly offset by interest expense on the bank and bond debt.

Taxes amounted to an income of USD 403 million for the third quarter compared to USD 0 million for the same quarter in 2018. The tax income in 2019 is related to the recognition of prior year deferred tax losses in Denmark due to the increased expected future profit from the acquisition of the DUC assets. This value has been recognised using the weighted average tax rate of the various subsidiaries based on their actual tax positions. Reference is made to note 7 in the interim financial report for further details to the taxes this period.

Net result for the third quarter of 2019 is a gain of USD 179 million, compared to a loss of USD 2 million for the same quarter in 2018 and a loss of USD 17 million for the year of 2018.

Selected data from the consolidated statement of financial position

All figures in USD million	*Q3 2019*	*Q2 2019*	*YE 2018*	*Q3 2018*
Total non-current assets	2 437	68	69	68
Total current assets	426	54	58	31
Total assets	2 864	122	127	99
Total equity	559	(11)	(6)	12
Bank and bond debt	904	20	19	18
Total abandonment provisions	981	68	70	67

Non-current restricted cash amounts to USD 113 million, of which USD 63 million (DKK 433 million) is related to the balance of an escrow account set aside for future abandonment costs related to the Nini/Cecilie fields, and USD 50 million deposit into an escrow account in accordance with a cash call security agreement with Total E&P Denmark A/S as operator of the DUC. Noreco will increase this escrow account from USD 50 million to USD 140 million by USD 15 million per month from August 2020 until January 2021.

Other current assets amounted to USD 426 million at the end of the quarter, of which USD 60 million is related to trade receivables from oil sales, USD 51 million is related to accrued revenue, USD 135 million is bank deposits, USD 56 million is related to the liquid volume protection agreement with Shell, USD 36 million is related to offshore insurance premium that is paid in advance, USD 50 million is related to inventory and USD 37 million is related to short term derivatives.

Equity amounted to a USD 559 million at the end of the quarter, compared to a negative USD 6 million at the end of 2018.

Asset retirement obligations amounted to USD 981 million at the end of the quarter compared to USD 70 million at the end of 2018. USD 908 million is related to the DUC assets. Part of the asset retirement obligation is secured through an escrow account of USD 63 million.

Interest-bearing debt related to the convertible bond loan NOR13 had a book value of USD 158 million at the end of the third quarter 2019. There has been no trading in the bond after it was listed on the Oslo Stock Exchange in August 2019 and as such it is valued at par. At the end of July, the NOR10 bond loan was repaid at 101,5% of par, in addition the deposit loan issued to fund part of the initial payment to Shell was redeemed by the issuance of new bonds under the NOR13 convertible bond loan. In order to fund part of the consideration payable to Shell at completion of the transaction, USD 746 million was drawn under the seven year USD 900 million RBL facility.

Selected data from the consolidated statement of cash flows

All figures in USD million	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Cash flow from operating activities	115	-2	111	-2
Cash flow used in investing activities	-1 166	–	-1 166	–
Cash flow from financing activities	1 185	–	1 188	-41
Net change in cash and cash equivalents	134	-2	133	30
Cash and cash equivalents	135	10	135	3

Cash flow from operating activities amounts to USD 111 million at the end of third quarter, compared to negative USD 2 million for the same period in 2018. The increase was mainly caused by cash generated from the DUC asset which Noreco acquired from 31 July 2019.

Cash flow used in investing activities amount to USD 1 166 million at the end of the quarter mainly related to the acquisition of Shell's Danish upstream assets for USD 1 061 million, CAPEX related to the DUC asset of USD 45 million, of which USD 34 million is linked to Tyra field, an escrow account of USD 50 million in accordance with a cash call agreement with Total E&P Denmark AS and an additional USD 10 million in decommissioning costs mainly associated with the Tyra field cost mainly on the Tyra field.

Cash flow from financing activities amounted to USD 1 185 million at the end of the third quarter, compared to negative USD 41 million for the same period in 2018. The acquisition was financed through the release of USD 746 million of funds from the seven-year USD 900 million Reserve Based Lending Facility, equity issuance of USD 390 million through a private placement and a partially underwritten subsequent offering and the issuance of a convertible bond loan of USD 158 million. In addition, the outstanding NOR10 bond loan was repaid.

Net change in cash and cash equivalents amounted to USD 134 million in the quarter compared to negative USD 2 million in 2018.

Hedging

The company actively seeks to reduce the risk it is exposed to regarding fluctuating commodity prices through the establishment of hedging arrangements. Noreco currently does not use hedge accounting.

Noreco has to date executed this policy in the market through a combination of forward contracts and options, and in addition benefits from the risk mitigation elements inherent in the agreement to acquire SOGU from Shell.

As part of the agreement to acquire SOGU, Noreco has a liquid volume protection agreement with Shell that will, from signing of the transaction until the end of 2020 (the "Protection Period"), provide a monthly liquid production guarantee at levels above our current internal forecasts. To the extent that actual production levels are below the pre-agreed level in the Protection Period, Noreco will receive a monthly cash payment from Shell that will be recognised as a reduction in the acquisition purchase price. For the period 2021 to 2023 (the "Recovery Period"), a payment to Shell may be required if actual production exceeds a pre-agreed level that is currently above the company's internal forecasts. The amount refunded to Shell during the Recovery Period cannot exceed the value of Noreco's claims during the Protection Period.

In the market Noreco has also entered into a mix of forward contracts and options to further reduce our exposure to commodity price volatility. Subsequent to the close of the transaction, in early August 2019 Noreco fully hedged the remaining portion of our guaranteed production under the liquid volume protection agreement with Shell in the market. Noreco has also entered into additional contracts to protect our minimum oil price received during 2021 and 2022.

As part of the RBL Facility, Noreco has a rolling hedge requirement based on a minimum level of production corresponding to the RBL banking case forecast: 50% in the year following, 40% in two years following and 30% in three years following, subject to a maximum level in each of these periods of 70%. Noreco is in full compliance with this requirement.

	Liquids hedged (mmboe)	*Average hedged price*
Q4-2019*	2,7	72,3
2020*	10,2	67,5
2021	5,9	56,2
2022	1,9	55,9

* All hedged liquid volumes are protected by a volume guarantee from Shell

Financing

Noreco raised gross proceeds of approximately USD 1 292 million from external financing sources during the third quarter in connection with the Company's acquisition of SOGU:

Private Placement of Equity totaling approximately USD 352 million and subscribed to by CQS, Kite Lake Capital Management, Taconic Capital Advisors and York Capital Management.

Subsequent Offering of Equity totaling approximately USD 37 million which was oversubscribed by approx. 101%.

Convertible Bond ("NOR13") issue of approximately USD 158 million with an eight-year tenor and subscribed to by CQS, Kite Lake Capital Management, Taconic Capital Advisors and York Capital Management. This instrument has a mandatory conversion to equity after five years and PIK interest with additional bonds at 8.0% PIK interest. Noreco may alternatively, at its own discretion, pay cash interest of 6.0 percent. Should the instrument be in place beyond the five-year conversion period, the interest rate on NOR13 will be reduced to 0.0 percent for the remaining period.

Seven year 1st lien senior-secured ***Reserve Based Lending Facility (the "RBL Facility")*** with a total facility amount of USD 900 million available for debt and a letter of credit sub-limit of USD 100 million. At the end of the third quarter, the RBL Facility was USD 746 million drawn with an additional USD 100 million outstanding in respect of a letter of credit. The facility will amortize from the second half of 2022 and interest is charged on debt drawings based on the LIBOR rate and a margin of 4.0 to 4.5 percent. Subsequent to the end of the third quarter, Noreco successfully agreed certain amendments with its lenders to increase the maximum amount available under the RBL facility. Had these amendments been agreed prior to the end of the quarter, the maximum available amount under the RBL facility would have been constrained only by the total facility size.

Operational review

Production

Key figures	*Unit*	*Q3 2019***	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Dan hub	mboepd	9,4	–	9,4	–
Gorm hub	mboepd	6,0	–	6,0	–
Halfdan hub	mboepd	18,4	–	18,4	–
Tyra hub*	mboepd	7,8	0,05	7,7	0,02
Total production	***mboepd***	***41,6***	***0,05***	***41,5***	***0,02***
Over/-underlift	mboepd	4,8	-0,03	7,7	0,01
Net sales	***mboepd***	***46,4***	***0,02***	***49,2***	***0,03***
Oil sales	mboepd	32,9	0,0	35,8	0,02
Gas sales	mboepd	13,4	0,02	13,4	0,01
Operating efficiency		85 %	–	85 %	–

* Production including Noreco's share of Lulita outside the DUC.

** Production figures include the acquired DUC assets from 1 August 2019.

Dan hub

*Key figures**	*Unit*	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Dan	mboepd	8,5	–	8,5	–
Kraka	mboepd	0,9	–	0,9	–
Operating efficiency		78,6 %	–	85 %	–

* Production figures include the acquired DUC assets from 1 August 2019.

Third quarter average production from Dan hub was 9,4 mboepd. Operating efficiency for the quarter was 78,6 %. Reduced efficiency due to planned separator inspection. Production returned to normal following the planned pressure vessel inspections. Offshore modification work is ongoing according to plan.

Gorm hub

*Key figures**	*Unit*	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Gorm	mboepd	2,3	–	2,3	–
Rolf	mboepd	0,4	–	0,4	–
Skjold	mboepd	3,3	–	3,3	–
Operating efficiency		92,3 %	–	85 %	–

* Production figures include the acquired DUC assets from 1 August 2019.

Third quarter average production from Gorm hub was 6,0 mboepd. Production efficiency for the quarter was 92,3 %. The third quarter was characterized by stable operations and production. Offshore modification work is ongoing according to plan.

Halfdan hub

*Key figures**	*Unit*	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Halfdan	mboepd	18,4	–	18,4	–
Operating efficiency		85,4 %	–	85 %	–

* Production figures include the acquired DUC assets from 1 August 2019.

Third quarter average production from Halfdan hub was 18,4 mboepd. Operating efficiency for the quarter was 85,4 %. The third quarter was characterized by successfully drilling & completing the new well HBB-05 with fishbone technology and stable operations and production.

Tyra hub

*Key figures***	*Unit*	*Q3 2019*	*Q3 2018*	*YTD Q3 2019*	*YTD Q3 2018*
Tyra	mboepd	1,9	–	1,9	–
Tyra SE	mboepd	2,9	–	2,9	–
Harald	mboepd	1,2	–	1,2	–
Lulita*	mboepd	0,3	0,05	0,2	0,02
Roar	mboepd	0,5	–	0,5	–
Svend	mboepd	0,0	–	0,0	–
Valdemar	mboepd	1,0	–	1,0	–
Operating efficiency		87,7 %	–	85%	–

* Production included Lulita share outside DUC
** Production including Noreco's share of Lulita outside the DUC.

Third quarter average production from Tyra hub was 7,8 mboepd. Operating efficiency for the quarter was 87,7 %. The third quarter was characterized by the decommissioning of Tyra East & West and the successful shut down of production due to the Tyra Redevelopment Project.

The Tyra Redevelopment

The execution of the Tyra Redevelopment was sanctioned by the DUC Partners in November 2017. The shutdown of the Tyra field and satellites was accomplished in September 2019 in accordance with the plan, and the offshore work for achieving 'safe state' in January 2020 of the Tyra facilities are progressing. Offshore modification and construction work are ongoing preparing for the change-out of the wellhead and riser modules and for the decommissioning and removal of the existing process and accommodation platforms. The new wellhead and riser modules as well as the new process module are being fabricated in Indonesia, and the new accommodation unit is being fabricated in Italy. The construction of the new jacket platforms is taking place in Spain. The project is running within budget and with planned startup in 2022 in accordance with the redevelopment plan.

Health, Safety and the Environment

Noreco will conduct its business operation in full compliance with all applicable national legislation in the countries where it is operating. We are committed to carry out our activities in a responsible manner to protect people and the environment. The consideration of HSEQ and major accidents is an integral part of our operation and business performance.

Governance and organization

The number of employees was 27 at the end of the third quarter, up from 11 at the end of the previous quarter. The increase in the organization is a result of the completion of the transaction with Shell. The company currently has a search process ongoing for a group CEO.

Risks and uncertainties

An investment in Noreco involves risks and uncertainties as described in the company´s annual report for 2018 and the prospectus published 9 August 2019. Noreco's business, results of operations, cash flow and financial condition depends on the level of oil and gas prices and market expectations of these. Further, Noreco is dependent on finding, acquiring, developing and producing oil and gas reserves that are economically recoverable. Unless the Company replaces its oil and gas reserves, its reserves and production will decline, which over time could adversely affect its business, financial condition and results of operations. Noreco is also exposed to risks such as, but not limited to, changes in exchange rates, interest rates, tax, regulations and access to capital.

Outlook

Noreco has built a stable business that is underpinned by the company's position in the DUC. Noreco has identified a number of value additive organic DUC investment projects that the Company will seek to sanction as and when they are sufficiently progressed. The Company's ambition is to more than replace produced volumes with incremental 2P reserves additions over the medium-term. The Company expects the following production for the fourth quarter of 2019, reflecting the shutdown of the Tyra Hub:

	Unit	*Q4 2019 Guidance*	*Q3 2019*
Production*	mboepd	31-33	41,6

* Figures do not take into account the volume guarantee.

Condensed Consolidated Statement of Comprehensive Income

All figures in USD million	Note	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018	2018
Revenue	2	160	0	161	0	2
Total revenues		***160***	***0***	***161***	***0***	***2***
Production expenses	3	(68)	(0)	(69)	(0)	(0)
Exploration and evaluation expenses		(0)	–	(0)	–	–
Personnel expenses	4	(14)	(0)	(15)	(1)	(2)
Other operating expenses	5	(10)	(1)	(11)	(3)	(18)
Total operating expenses		***(92)***	***(2)***	***(95)***	***(4)***	***(21)***
Operating result before depreciation and write-downs (EBITDA)		***68***	***(1)***	***66***	***(3)***	***(19)***
Depreciation	10	(30)	(0)	(30)	(0)	(0)
Impairment of goodwill	8, 9	(278)	–	(278)	–	–
Net operating result (EBIT)		***(240)***	***(1)***	***(243)***	***(3)***	***(19)***
Financial income	6	46	3	58	10	21
Financial expenses	6, 18	(30)	(3)	(47)	(12)	(19)
Net financial items		***16***	***0***	***11***	***(2)***	***2***
Result before tax (EBT)		***(224)***	***(2)***	***(231)***	***(5)***	***(17)***
Income tax benefit / (expense)	7	403	0	403	0	0
Net result for the period		***179***	***(2)***	***171***	***(5)***	***(17)***
Other comprehensive income (net of tax):						
Items that will not be reclassified to profit or loss						
Changes in fair value of bond debt		(1)	1	–	0	(0)
Items that are or may be reclassified subsequently to profit or loss						
Currency translation adjustment		(12)	0	–	0	(4)
Total other comprehensive income for the period (net of tax)		***(13)***	***1***	***–***	***0***	***(4)***
Total comprehensive income for the period (net of tax)		***165***	***(1)***	***171***	***(5)***	***(21)***
Earnings per share (USD 1)						
Basic		7,3	(0,3)	7,0	(0,7)	(2,3)
Diluted		5,7	(0,3)	5,5	(0,7)	(2,3)

Condensed Consolidated Statement of Financial Position

All figures in USD million	*Note*	*30.09.2019*	*31.12.2018*
Non-current assets			
Licence and capitalised exploration expenditures	8, 9	30	–
Goodwill	8, 9	–	–
Deferred tax assets	7	430	–
Property, plant and equipment	9, 10	1 670	1
Right of Use asset	18	1	–
Restricted cash	12, 15	113	68
Other non-current financial investments		0	0
Receivables and other non-current assets	11	67	–
Derivative instruments	15	126	–
Total non-current assets		***2 437***	***69***
Current assets			
Derivative instruments	15	37	–
Trade receivables and other current assets	11	254	55
Restricted cash		0	0
Bank deposits, cash and cash equivalents	12, 15	135	3
Total current assets		***426***	***58***
Total assets		***2 864***	***127***
Equity			
Share capital	17	30	8
Other equity		530	(14)
Total equity		***559***	***(6)***
Non-current liabilities			
Deferred tax	7	0	0
Asset retirement obligations	16	907	70
Convertible bond loan	13, 15	158	–
Bank debt	13	746	–
Other non-current liabilities	13, 18	26	–
Total non-current liabilities		***1 837***	***70***
Current liabilities			
Asset retirement obligations	16	74	(0)
Bond loan	13, 15	–	19
Other interest bearing debt	13	–	37
Tax payable	7	150	–
Trade payables and other current liabilities	14	244	8
Total current liabilities		***468***	***63***
Total liabilities		***2 304***	***133***
Total equity and liabilities		***2 864***	***127***

Condensed Consolidated Statement of Changes in Equity

All figures in USD million	*Note*	*Share capital*	*Currency translation fund*	*Other equity*	*Total equity*
2018					
Equity on 01.01.2018		***8***	***58***	***(50)***	***17***
Net result for the period		–	–	(5)	(5)
Other comprehensive income for the period (net of tax)					
Change in fair value of bond debt		–	–	0	0
Currency translation adjustments		–	0	–	0
Total comprehensive income for the period (net of tax)		***–***	***0***	***0***	***0***
Equity on 30.09.2018		***8***	***58***	***(55)***	***12***
2019					
Equity on 01.01.2019		***8***	***54***	***(69)***	***(6)***
Impact change in functional and presentation currency		–	(55)	55	–
Restated Equity on 01.01.2019		***8***	***(1)***	***(14)***	***(6)***
Net result for the period		–	–	171	171
Other comprehensive income for the period (net of tax)					
Foreign currency translation reserves*		–	–	–	–
Currency translation adjustments		–	1	–	1
Total other comprehensive income for the period (net of tax)		***–***	***1***	***–***	***1***
Issue of shares		21	–	369	390
Transaction cost equity issue		–	–	(4)	(4)
Share-based incentive program		–	–	7	7
Total transactions with owners for the period		***21***	***–***	***372***	***393***
Equity on 30.09.2019		***30***	***1***	***529***	***559***

* The amount arose as a result of the change in functional currency and presentation currency in July 2019.

Condensed Consolidated Statement of Cash Flows

All figures in USD million	Q3 2019	Q3 2018	YTD Q3 2019	2018
Cash flows from operating activities				
Net result for the period	179	(2)	171	(17)
Adjustments for:				
Income tax benefit	(403)	(0)	(403)	(0)
Tax Refundable	–	–	–	(0)
Depreciation	30	0	30	(0)
Impairment of goodwill	278	–	278	–
Share-based payments expenses	7	–	7	1
Change in fair value of bonds	(1)	–	–	(0)
Net financial costs	(16)	1	(11)	(3)
Changes in:				
Trade receivable	17	(0)	19	11
Trade payables	37	(1)	36	5
Invetories and spareparts	10	–	10	–
Prepayments	(31)	–	(31)	–
Over-/underlift	5	–	5	–
Other current balance sheet items	3	0	(1)	1
Net cash flow from operating activities	***115***	***(2)***	***111***	***(2)***
Cash flows from investing activities				
Acquisition of subsidiary	(1 071)	–	(1 071)	–
Volume guarantee (purchase price adjustment)	10	–	10	–
Investment in oil and gas assets	(45)	–	(45)	(41)
Abandonment spent	(10)	–	(10)	–
Changes in restricted cash accounts	(50)	–	(50)	–
Net cash flow from investing activities	***(1 166)***	***–***	***(1 166)***	***(41)***
Cash flows from financing activities				
Drawdown long-term loans	904	–	904	0
Repayment short-term loans	(58)	–	(55)	–
Lease payments	(0)	–	(0)	–
Issue of new shares	390	–	390	0
Transaction costs related to financing	(44)	–	(44)	–
Transaction costs related to equity issue	(4)	–	(4)	(5)
Repurchase/(sale) own bonds	1	–	1	(1)
Interest paid	(4)	–	(4)	(1)
Net cash flow from (used) in financing activities	***1 185***	***–***	***1 188***	***30***
Net change in cash and cash equivalents	***134***	***(2)***	***133***	***(13)***
Cash and cash equivalents at the beginning of the period	1	12	3	16
Cash and cash equivalents at end of the quarter	***135***	***10***	***135***	***3***

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.

Basis for preparation

The interim condensed consolidated financial statements (the interim financial statements) for the third quarter 2019 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 third quarter of 2019 were authorised for issue by the Board of Directors on 27 of November 2019.

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 and working capital position are considered satisfactory in regards of the planned activity level for the next twelve months.

Business combinations

The Group accounts for business combinations using the acquisition method. The fair value of the acquired assets and liabilities are included in the consolidated financial statement from the date control is obtained. Goodwill is the difference between the fair value of the consideration and the net assets acquired. Contingent consideration is measured at fair value at the date of acquisition and remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. Transaction costs related to business combinations are expensed as incurred, except if related to the issue of debt or equity securities.

Change in presentation currency

Norwegian kroner (NOK) was regarded as the functional and presentation currency of the parent company. As a result of a material change in the parent company's business following the Shell transaction the functional currency of the parent company was changed to US dollars (USD), this is in line with the primary economic environment in which the Group operates. The presentation currency of the group was also changed to USD. The functional currency for the subsidiary Altinex AS was also changed to USD. Norweigan Energy Company (UK) Ltd and Noreco DK Pipeline Aps is the only subsidiary of the group with a different functional currency, which is GBP and DKK.

The change in functional and presentation currencies in presenting the operating results and financial positions of the Group effective from the transaction date and is accounted for in accordance with International Accounting Standard ("IAS") 21 The Effects of Changes in Foreign Exchange Rates.

For interim purpose Comparative figures have been re-stated to reflect the change in the Group's presentation currency. The consolidated financial statements of the Group as of 30 September 2018 and 31 December 2018 are translated from NOK into USD at the closing rate of the transaction date.

Interest-bearing debt

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis. The convertible bond loan settled in July 2019 was at fair value through profit or loss.

Reference to summary of significant accounting policies

IFRS 15 was effective from 1 January 2018. Noreco implemented IFRS 15 as of 1 January 2019. The changes in over/underlift balances was previously included as revenue and are now included in production expense at cost of production in order to meet the IFRS 15 definition. The Group has not had any major impact on earnings at adoption of IFRS 15 and therefore 2018 figures have not been restated.

These interim financial statements are prepared using the same accounting principles as the annual financial statements for 2018, except for the adoption to IFRS 15 and the new IFRS 16 standard effective from 1 January 2019. For the full summary of significant accounting policies, reference is made to the annual financial statements for 2018.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, includingexpectations of future events that are believed to be reasonable under the circumstances. The significant judgements made in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the supplementary notes described and the the new judgements related to lessee accounting under IFRS 16.

2 Revenue

USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
Sale of oil	149	0	150	0
Sale of gas and NGL	10	0	11	0
Total Revenue	***160***	***0***	***161***	***0***

3 Production Expenses

USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
DUC	(67)	–	(67)	–
Lulita	(1)	(0)	(1)	(0)
Total production expenses	***(68)***	***(0)***	***(69)***	***(0)***

4 Personnel Expenses

USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
Salaries	(3)	(0)	(4)	(1)
Social security tax	(1)	(0)	(1)	(0)
Pension costs	(0)	(0)	(0)	(0)
Costs relating to share-based payments	(10)	–	(10)	–
Other personnel expenses	(0)	0	(1)	(0)
Personnel expenses recharged	(0)	–	(0)	–
Total personnel expenses	***(14)***	***(0)***	***(15)***	***(1)***
Average number of employees	***18***	***7***	***11***	***8***

Share-based payment arrangements

At the extraordinary general meeting held on 8 November 2018, the general meeting replaced the Company's existing option scheme. The Board of Directors was authorized to grant options up to a total of 1 510 000 shares in the Company as part of a new incentive program. The options may be granted to the members of the Board and key personnel of the Company. After award, the options must be exercised within 5 years after which they expire. On 7 of August 2019 the share option programme was amended to include all the Group's employees, at the Board's discretion.

Options were to be divided into (i) options to buy or subscribe for 715,000 shares at a strike price of NOK 240 per share, (ii) options to buy or subscribe for 170,000 shares at a strike price based on the VWAP 30 days after completion of the acquisition of the DUC assets, and (iii) options to buy or subscribe for 625,000 shares at a strike price determined at the Board of Director's discretion with reference to the share price at the time of granting the options. The options (ii) and (iii) shall have a vesting period of 3 years from the time of award, with 1/3 vesting for each of the three years. The option (i) shall not have any vesting period. In addition to the programme above the Board is authorised to issue one option for each share purchased by any Board Member (except of Executive Chairman Riulf Rustad and Board Member Lars Purlund) up to a total of 10,000 shares for each Board Member.

The Board of Directors may also award other options, other terms for options and other kind of remuneration related to the share price of the Company. Remuneration to the Managing Director and executive management shall be evaluated and may be amended regularly by the Board of Directors to ensure that salaries and other benefits are based on the above guidelines and principles and in accordance with the purpose of the total compensation package for the Managing Director mentioned above.

On 1 August 2019 715,000 options were awarded with a grant date fair value of USD 7.5 million (tranche 1) and 170,000 options with a grant date fair value of USD 1.9 million (tranche 2a). On 30 August 71,954 options were awarded with a grant date fair value of USD 0.5 million (tranche 2b). Tranche 1 is not subject to a vesting period and is expensed in Q3 2019 (USD 7.5 million). Tranche 2a and 2b is subject to a 3 years vesting period where 1/3 is vested each year. In addition USD 2.3 million was expensed in Q3 2019 related to the previous share-based payment programme. All options are equity settled.

5 Other Operating Expenses

USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
Premises	(0)	(0)	(0)	(0)
IT expenses	(0)	(0)	(1)	(0)
Travel expenses	(0)	(0)	(0)	(0)
Office costs	(0)	(0)	(0)	(0)
Consultant fees	(8)	(1)	(8)	(2)
Other operating expenses	(1)	(0)	(2)	(0)
Total other operating expenses	***(10)***	***(1)***	***(11)***	***(3)***

6 Financial Income and Expenses

Financial Income USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
Value adjustment hedging contracts	35	–	35	–
Realized gain derivatives	1	–	1	–
Interest income	0	0	1	0
Change in fair value of bond debt	0	0	0	0
Foreign exchange gains	8	3	21	9
Other financial income	1	–	1	0
Total financial income	***46***	***3***	***58***	***10***

Financial Expenses USD million	Q3 2019	Q3 2018	YTD Q3 2019	YTD Q3 2018
Interest expense from bond loans	(3)	(0)	(6)	(1)
Interest expense from bank debt	(10)	–	(10)	–
Interest expenses current liabilities	(0)	(0)	(0)	(0)
Accretion expense related to asset retirement obligations	(6)	(0)	(6)	(0)
Loss on repurchase of bonds	(1)	–	(1)	(0)
Foreign exchange losses	(9)	(2)	(23)	(10)
Other financial expenses	(0)	(0)	(1)	(0)
Total financial expenses	***(30)***	***(3)***	***(47)***	***(12)***
Net financial items	***16***	***(0)***	***11***	***(2)***

7 Tax

Income Tax benefit USD million	
Change in deferred tax/-deferred tax asset	42
Deferred tax asset previosly not recognised	(444)
Income tax benefit	***(403)***

Reconciliation of nominal to actual tax rate	USD	%
Income (loss) before tax	***48***	
Calculated 22% tax on profit before tax	11	22 %
Adjustment of calculated tax in foreign subsidiaries in relation to difference in tax rate	0	0 %
Hydrocarbon tax, Denmark	37	77 %
Tax effect of:		
Recognized deferred tax on assets and liabilities previously not recognized	(58)	-122 %
Recognition of deferred tax on tax losses in Denmark previously not recognized	(386)	-806 %
Permanent differences	(14)	-30 %
No recognition of tax losses in Norway and UK	9	18 %
Tax expense (income)	***(403)***	***-841 %***

Tax payable

Tax payable relates to the group's entities in Denmark. The amounts payable as of September 30 was:

Calculated tax payable in Denmark (Hydrocarbon tax) – part of liabilities acquired in the business combination	***150***

Deferred tax and deferred tax asset:	
Net operating loss deductable	(637)
Fixed assets	878
Current assets	66
Liabilities	(979)
Basis of deferred tax/deferred tax asset	***(672)***
Net deferred tax/deferred tax asset	***(430)***
Deferred tax/deferred tax asset recognised	
Recognised deferred tax asset foreign	(1 034)
Recognised deferred tax foreign	604
Net deferred tax/deferred tax asset	***(430)***

8 Intangible non-current assets and goodwill

USD million	*Licence and capitalised exploration expenditures*	*Goodwill*	*Total*
Acquisition costs 01.01.19	–	1	*1*
Acquisitions though business combination	30	278	*308*
Currency translation adjustment	–	0	*0*
Acquisition costs 30.09.19	***30***	***279***	***309***
Accumulated depreciation and write-downs			
Accumulated depreciation and write-downs 01.01.19	–	(1)	*(1)*
Impairment	–	(278)	*(278)*
Accumulated depreciation and write-downs 30.09.19	***–***	***(279)***	***(279)***
Book value 30.09.19	***30***	***–***	***30***

Impairment of USD 278 million is related to the impairment of goodwill. This goodwill was generated as a result of the acquisition of SOGU during the period and has been calculated according to the purchase price allocation of the underlying acquired assets and liabilities on a post-tax basis. As a result of the goodwill impairment being performed on a standalone basis and not taking into account the contribution from our existing Danish tax position, Noreco is required to fully impair this goodwill as it would not be recovered without integration into the broader Noreco group. As the activities will be operated separately and consequently not merged into other Noreco activities, no other activities will benefit from the acquisition and consequently, no part of the goodwill shall be allocated to other parts of the Noreco group. The impairment test indicate that the value is not recoverable.

9 Acquisition of subsidiary

On 31 of July 2019 the Company completed the acquisition of 100% of the shares in Shell Olie- og Gasudvinding Danmark B.V. Through this acquisition Noreco has a 36.8% interest in the Danish Underground Consortium (DUC), a Sole Concession with 11 producing fields and related infrastructure. This acquisition has transformed Noreco to become the second largest oil and gas producer in Denmark and a considerable independent exploration and production company in the North Sea.

The acquisition was financed through the release of funds under the acquiring subsidiary from the seven-year USD 900 million Reserve Based Lending Facility, a share capital increase of USD 352 million in Noreco, and the issuance of a convertible bond loan with the principal amount of USD 158 million, in addition the outstanding NOR10 bond loan was repaid in full at 101,5% of par value.

The transaction is considered to be a business combination and has been accounted for using the acquisition method of accounting as required by IFRS 3. The acquisition date for accounting and tax purposes (transfer of control) has been determined to be 31 July 2019. In the two months to 30 of September the new subsidiary contributed revenue of USD 159 million and net profit before tax of USD 79 million to the Group's result. If the acquisition had occurred on 1 January, management estimates that consolidated revenue would have been USD 851 million and the net profit before tax for the period would have been USD 297 million. In determination of these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

A. Consideration transferred

The following table summarizes the acquisition-date fair value of the total Purchase price.

USD million	
Initial Cash payment	40
Total Cash payment 2018	***40***
Cash at Completion	1 104
Volume guarantee refund until June 2019	(33)
Total Cash payment 2019	***1 071***
Total Cash payment	***1 111***
Adjustments	
Settlement of prepaid cost – reimbursed to seller	5
Deferred payment	25
Volume guarantee for July 2019	(10)
Locked Box Interest	63
Volume guarantee market value	(81)
Total Purchase price	***1 114***

The price to be paid for SOGU was set in the agreement (i.e. the locked box) consisting of a cash payment, of which USD 25 million has been deferred until 2023 and an additional volume protection payment covering the period from signing the SPA until end of December 2020. This volume protection payment requires the seller to compensate Altinex according to a formula set in the SPA, if the actual volume is lower than a stipulated volume. Management has estimated the fair value of this volume protection payment from closing until December 2020 (being a contingent consideration comprising a receivable from the seller) to USD 81 million which has been deducted from the consideration. During the locked box period Altinex became entitled to volume protection payments of USD 33 million which similarly has been deducted from the consideration.

B. Acquisition-related costs

The Group incurred acquisition-related cost of USD 7 million in 2019 (USD 1,5 million in 2018) related to external legal fees and due dilligence cost. These costs have been included in Other operating expenses in the condensed consolidated statement of comprehensive income.

C. Identifiable assets acquired and liabilities assumed

A purchase price allocation (PPA) has been performed and all identified assets and liabilities have been measured at the acquisition date at their fair values in accordance with the requirements of IFRS 3. The fair values of the identifiable assets and liabilities in the transaction at the date of the acquisition have been estimated on a provisional basis as follows:

USD million	SOGU	SOGUP	PPA
Assets			
Tangible and intangible fixed assets	1 682	2	1 684
Deferred tax assets	20	1	21
Financial assets at fair value	128	–	128
Inventories	61	–	61
Net working capital	99	24	123
Total Assets	***1 990***	***27***	***2 017***
Liabilities			
Asset retirement obligation	-918	-1	-919
Trade and other payables	-118	-0	-118
Tax payables	-144	–	-144
Total Liabilities	***-1 180***	***-1***	***-1 181***
Total identifiable net assets at fair value			***836***

Fair value is based on an NPV calculation (10% discount rate) on a debt / cash free basis. Further the following assumptions have been applied: Operational assumptions are based on Wood Mackenzie's forecast for DUC and hydro carbon prices applied are the forward curve for oil and gas. Inflation rate used is 2% and fiscal terms are based on Wood Mackenzie's modeling for the consession.

D. Goodwill

USD million	
Total consideration	1 114
Total identifiable net assets at fair value	836
Goodwill	***278***
Impairment	(278)
Goodwill	***–***

For comments related to goodwill and impairment please see note 8.

10 Property, Plant and Equipment

USD million	Asset under construction	Production facilities	Pipelines	Machinery & equipment	Total
Acquisition costs 01.01.19	–	3	–	1	4
Aquisitions though business combination	300	435	1	–	736
Additions	37	7	1	0	45
Acquisition of abandonment asset through business combination	–	918	1	–	919
Currency translation adjustment	–	(0)	–	(0)	(0)
Acquisition costs 30.09.19	***337***	***1 362***	***3***	***1***	***1 703***
Accumulated depreciation and write-downs					
Accumulated depreciation and write-downs 01.01.19	–	(2)	–	(1)	(3)
Depreciation	–	(30)	0	(0)	(30)
Currency translation adjustment	–	(0)	–	0	0
Accumulated depreciation and write-downs 30.09.19	***–***	***(33)***	***0***	***(1)***	***(33)***
Book value 30.09.19	***337***	***1 330***	***4***	***(0)***	***1 670***

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

USD million	30.09.19	31.12.18
Non-current assets		
Prepayments	42	(0)
Contingent consideration – volume protection	25	–
Total non-current receivables	***67***	***(0)***
Current assets		
Tax receivables	0	–
Contingent consideration – volume protection	56	–
Trade receivables	62	0
Inventories	50	–
Underlift of oil/NGL	–	1
Prepayments	36	48
Other receivables	50	6
Total trade receivables and other current receivables	***254***	***55***

12 Restricted Cash, Bank Deposits, Cash and Cash Equivalents

USD million	30.09.19	31.12.18
Non-current assets		
Restricted cash pledged as security for abandonment obligation related to Nini/Cecilie [1]	63	68
Restricted cash pledged as security for cash call obligations towards Total [2]	50	–
Other restricted cash and bank deposits (Bond holder pledge account, Withholding tax etc.)	–	(0)
Total non-current restricted cash	***113***	***68***
Current assets		
Unrestricted cash, bank deposits, cash equivalents	135	3
Total bank deposits	***249***	***70***

1) Any currency exposure in the subsidiary connected with the asset retirement obligation of USD 63 million (DKK 432 million), has been hedged in the Group accounts by a pledged bank account containing the same amount in DKK in the parent company. Any currency gains and losses from this has however been recognized as financial income/expense in line with IFRS 9.

2) Noreco has made a USD 50 million deposit into an escrow account in accordance with a cash call security agreement with Total E&P Denmark A/S as operator of the DUC. From August 2020 until January 2021 the escrow account will increase by USD 15 million monthly, up to a total of USD 140 million.

13 Borrowings

Non-Current Debt USD million	*30.09.2019* Principal amount	*30.09.2019* Book value	*31.12.2018* Principal amount	*31.12.2018* Book value
NOR 13 Convertible Bond [1]	158	158	–	–
Total non-current bonds	***158***	***158***	**–**	**–**
Bank debt [2]	746	746	–	–
Deferred Consideration [3]	25	25	–	–
Total non-current debt	***771***	***771***	**–**	**–**

Current Debt USD million	*30.09.2019* Principal amount	*30.09.2019* Book value	*31.12.2018* Principal amount	*31.12.2018* Book value
Deposit loan [4]	–	–	37	37
NOR10 [5]	–	–	19	19
Total current debt	**–**	**–**	***56***	***55***
Total borrowings	***929***	***929***	***56***	***55***

1) The Company issued a convertible bond loan of USD 158 million where the lender was granted a right to convert the loan into new shares in the Company by way of set-off against the claim on the Company. The loan carries an interest of 8% p.a., payable semi-annually.

2) Released funds from the seven-year USD 900 million Reserve Based Lending Facility. Interest is accrued on the repayment amount with an interest comprising the aggeregate of LIBOR3 and 4,8% p.a., payable quarterly.

3) In accordance with the SPA USD 25 million of the consideration is not due until after the rebuild of Tyra has been concluded.

4) In order to fund part of the initial payment to Shell, Noreco entered into a short-term funding agreement of USD 35 million in 2018 which upon closing of the Transaction was rolled into the convertible bond issue at par.

5) The change in principal amount from YE 2018 is sale of own bonds and payment in kind interest. The NOR10 loan was repaid in July 2019.

14 Trade Payables and Other Current Liabilities

USD million	*30.09.19*	*31.12.18*
Trade payable	5	3
Liabilities to operators relating to joint venture licences	110	(0)
Overlift of oil/NGL	24	(0)
Accrued interest	10	1
Salary accruals	2	2
Public duties payable	24	(0)
Other current liabilities	67	2
Total other current liabilities	***244***	***8***

15 Financial Instruments

15.1 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 30.09.2019 *USD million*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets at fair value through profit or loss				
– Contingent considerations	–	81	–	81
– Derivative instruments	163	–	–	163
Total assets	***163***	***80***	**–**	***243***

On 31.12.2018 *USD million*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets				
Financial assets at fair value through profit or loss				
– Underlift of oil	–	1	–	1
Total assets	**–**	***1***	**–**	***1***
Liabilities				
Financial liabilities at fair value through profit or loss				
– Convertible bond loans	–	–	19	19
Total liabilities	**–**	**–**	***19***	***19***

15.2 Financial Instruments by Category

On 30.09.2019 USD million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets			
Contingent considerations	–	81	81
Derivative instruments	–	163	163
Trade receivables and other current assets	162	–	162
Restricted cash	113	–	113
Bank deposits, cash and cash equivalents	135	–	135
Total	***410***	***244***	***654***

USD million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Convertible bond loans	158	–	158
Bank debt	746	–	746
Deferred consideration	25	–	25
Lease liability	1	–	1
Trade payables and other current liabilities	244	–	244
Total	***1 174***	***–***	***1 174***

On 31.12.2018 USD million	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets			
Trade receivables and other current assets	54	1	55
Restricted cash	68	–	68
Bank deposits, cash and cash equivalents	3	–	3
Total	***125***	***1***	***126***

USD million	Financial liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
Liabilities			
Convertible bond loans	–	19	19
Other interest bearing debt	37	–	37
Trade payables and other current liabilities	8	–	8
Total	***44***	***19***	***63***

15.3 Financial Instruments — Fair Values

Set out below is a comparison of the carrying amounts and fair value of financial instruments as on 30 September 2019:

USD million	Carrying Amount	Fair Value
Financial assets		
Trade receivables and other current assets	162	162
Restricted cash	113	113
Bank deposits, cash, cash equivalents and quoted shares	135	135
Total	***410***	***410***
Financial liabilities		
Convertible bond loans	158	158
Bank debt	746	746
Deferred consideration	25	25
Lease liability	1	1
Trade payables and other current liabilities	244	244
Total	***1 174***	***1 174***

16 Asset Retirement Obligations

USD million	30.09.19	31.12.18
Balance on 01.01.	70	70
Acquisition of abandonment liability through business combination	919	–
Provisions and change of estimates made during the year	–	3
Accretion expence - present value calculation	6	–
Incurred cost removal	(10)	–
Currency translation	(5)	(3)
Total provision made for asset retirement obligations	***980***	***70***
Break down of the provision to short-term and long-term obligations		
Short-term	74	–
Long-term	907	70
Total provision for asset retirement obligation	***980***	***70***

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/Cecilie licences. The restricted cash account of DKK 436 million, set aside for future abandonment costs for Nini/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 30.09.2019 is USD 915 million for DUC, USD 63 million for Nini/Cecilie and USD 2 million for Lulita (non DUC share).

17 Shares and Share Capital

USD million	*No. of Shares*	*Share Capital*
31 December 2018	7 194 730	8
Change in share capital in 2019	17 354 283	21
Number of shares and share capital 30 September 2019	24 549 013	30

18 Right-of-Use Assets and Lease Liabilities

Recognition and Measurement Approach on Transition

The Company has elected to use the recognition exemptions in the standard for short-term leases and leases of low value items such as computers and office equipment. The Company also applied the recognition exemption for leases that expire in 2019. The Company adjusted the right-of-use asset on January 1, 2019 with the provision for onerous leases on December 31, 2018. The Company has elected to exclude the initial direct costs from the measurement of right-of-use asset on implementation. The right-of-use asset for selected leases has been measured as if IFRS 16 had always been applied (using the incremental borrowing rate per January 1, 2019).

The discount rate has been determined for each leased asset according to the incremental borrowing rate at the date of implementation (January 1, 2019). Periods covered by extension or termination options are included when it is reasonably certain that the lease period will be extended. Non-lease components such as electricity, insurance and other property-related expenses paid to the landlord are excluded from the lease commitment for offices and manufacturing sites, but included when renting apartments and vehicles if included in the agreed lease amount. Future index or rate adjustments of lease payments are only included in the lease liability when a minimum adjustment has been contractually agreed and is in-substance fixed.

The movement in the right-of-use assets and lease liabilities since implementation is summarized below

USD million	*Land and buildings*	*Macinery and vehicles*	*Right-of-Use assets*	*Lease liabilities*
Balance as of January 1, 2019	–	0	0	-0
Additions	1	–	1	(1)
Remeasurement	–	–	–	–
Depreciation expense	(0)	(0)	(0)	–
Impairments	–	–	–	–
Interest expense	(0)	(0)	–	(0)
Lease payments	0	0	–	0
Currency translation differences	0	–	–	0
Balance as of 30 September 2019	1	0	1	-1

19 Subsequent Events

On 21 October 2019 it was announced that Noreco had successfully agreed certain amendments with the lenders under its USD 900 million senior secured Reserve Based Lending Facility.

On 21 October 2019 Noreco entered into a market making agreement with SpareBank 1 Markets.

On 31 October 2019 Noreco announced a further strengthening and internal reorganization of its management team.

Noreco may disclose alternative performance measures as part of its financial reporting as a supplement to the financial statements prepared in accordance with IFRS. Noreco believes that the alternative performance measures provide useful supplemental information to management, investors, security analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Noreco's business operations and to improve comparability between periods.

Abandonment spend (abex) is payment for removal and decommissioning of oil fields.

Adj. EBITDA is adjusted for any claims under the volume guarantee in the quarter as this reflects a payment from Shell if the operating performance of the business is below expectations set at the time of the signing of the Acquisition. This hedge is calculated to make whole Noreco's contribution from the operations had the performance been in line with expectations and is currently reflected in the company's cashflow statement and balance sheet only.

It is also adjusted for extraordinary costs in relation to the transaction that are not reflective of the underlying performance of the business, cost from share-base payment arrangements.

All figures in USD million	*Q3 2019*	*Q3 2018*	*YTD 2019*	*YTD 2018*
EBITDA	68	(1)	66	(3)
Claim volume floor guarantee	38	–	38	–
Transaction cost	7	1	7	1
Share-base payment	10	–	10	–
Adj. EBITDA	122	–	120	(2)

EBITDA Earnings before interest, taxes, depreciation, depletion, amortization and impairments. EBITDA assists in comparing performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending on accounting methods or non-operating factors and provides a more complete and comprehensive analysis of our operating performance relative to other companies.

Net interest-bearing debt is defined by Noreco as cash and cash equivalents reduced by current and non-current interest-bearing debt.

All figures in USD million	*YTD 2019*	*YTD 2018*
Cash and cash equivalents	135	10
Convertible bond loan	(158)	(18)
Bank debt	(746)	-
Other non-current liabilities*	(26)	-
Net interest-bearing debt	(795)	(8)

* Includes USD 1 million in lease liability, IFRS 16

Information About Noreco

Head Office Noreco

Headquarter	Nedre Vollgate 1, 0158 Oslo, Norway
Telephone	+47 22 33 60 00
Internet	www.noreco.com
Organisation number	NO 987 989 297 MVA

Financial Calendar 2019

25 February	Q4 2018 Report
30 April	Annual Report 2018
22 May	Annual General Meeting
22 May	Q1 2019 Report
30 August	Q2 2019 Report
28 November	Q3 2019 Report

Board of Directors Noreco

Riulf Rustad	Chair
Lars Purlund	
Marianne Lie	
Tone Kristin Omsted	
Colette Cohen	
Yves-Louis Darricarrère	
Chris Bruijnzeels	

Noreco Management

Atle Sonesen	Chief Operating Officer and Managing Director
Euan Shirlaw	Chief Financial Officer
Cathrine Torgersen	EVP, Investor Relations & Communications*
Frederik Rustad	EVP, Corporate Finance & Investments

Investor Relations	
Phone	+47 22 33 60 00
E-mail	investorrelations@noreco.com

Annual Reports

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

Quarterly publications

Quarterly reports and supplementary information for investors and analysts are available on www.noreco.com. The publications can be ordered by e-mailing investorrelations@noreco.com.

News Releases

In order to receive news releases from Noreco, please register on www.noreco.com or e-mail investorrelations@noreco.com.

*) Commencing 1 January 2020