

# **Magnora ASA**

## **Second Quarter 2019**

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## Main events in the quarter

*(Figures in brackets relate to first quarter 2019. The figures are unaudited.)*

- Following the sale of Magnora's intellectual property and shares in HiLoad LNG AS to Sembcorp Marine Integrated Yard Pte Ltd ("SMIY"), the company is now a highly profitable company on the Oslo Stock Exchange with 3,943 shareholders.
- Magnora ASA has returned NOK 499.7 million over the last 9 months to its shareholders, totalling NOK 9.5 per share following the last distribution of 1 NOK on July 11th, 2019. We expect to continue to generate revenues over the lifetime of the Western Isles FPSO (the "FPSO"), and in addition from the royalty of the Shell Penguins FPSO project. We expect to hold a cash balance of NOK 25-30 million, and pay out all remaining cash generated by the agreements to the extent legally permitted. Our dividend is expected to be significant in the coming years, supported by the Western Isles FPSO and significant payments expected from the Penguins FPSO when completed, installed and starts to produce. These income streams are likely to provide for significant dividends in 2020, 2021, 2022 and beyond based on the existing contracts.
- Reese McNeel and the Board of Directors of Magnora agreed that Mr McNeel step down as CEO and CFO with effect from April 17, 2019. Reese McNeel is continuing as an advisor to the Board of Directors until the end of August 2019. Erik Sneve has been appointed the acting CEO effective from April 17, 2019, working closely with the Executive Chairman Torstein Sanness on a 60% basis.
- Q2 2019 operating costs were impacted by the company incurring additional salary costs, as the company was managing the transition to new management. In addition, the company incurred success fees related to the SMIY transaction, personnel restructuring and due diligence expenses related to an M&A opportunity from which the company ultimately withdrew. Q4 2019 will mark the first full quarter with a lean, new cost efficient operating model for Magnora ASA with new offices in Karenslyst Alle 2 and a outsourced accounting function. Annualised fixed operating costs, including non-cash costs, are expected to be NOK 7-10 million going forward from Q4 2019. Under the new operating model the board and management can focus on value creating activities going forward.
- The Western Isles agreement gives Magnora the right to USD 0.5 per barrel of oil produced and offloaded from the Western Isles FPSO (the "FPSO") during the lifetime of the FPSO. The Western Isles development is expected to have a field life of 15 years. The FPSO is expected to have a design life of 20 to 25 years, and thus could produce oil for longer than 15 years. Magnora's right to payments is tied to the FPSO, irrespective of operating location and field. Any potential oil field tied-back to the FPSO or any redeployment, irrespective of location, will also be subject to the payment obligations under the agreement. The Western Isles agreement is expected to generate income for Magnora in the years to come. The FPSO is owned and operated by Dana Petroleum and is currently producing at the Western Isles development in the UK sector of the North Sea. First oil was achieved in Q4 2017. The FPSO has a production capacity of 44,000 barrels per day. The related revenue for Q2 2019 was NOK 9.4 million (NOK 12.6 million). The lower revenue in Q2 2019 was mainly affected by an unexpected slow down in production in April due to operational issues.
- The Penguins agreement gives Magnora the right to future license income of approximately USD 16 million from the Shell Penguins FPSO project. The Penguins FPSO is currently under construction in Asia. The payments of USD 16 million in total are tied to three milestones. These three milestones are: 1) the completion and sail away of the Penguins FPSO from the construction yard 2) the installation of the Penguins FPSO at the field and achievement of first oil, and 3) the successful production, offloading and gas export of 4 million barrels which is estimated to be approximately 6 months after successful start-up. It is anticipated that the construction of the Penguins FPSO will be completed in Asia during mid 2021. Achievement of the further milestones will take place subsequently.
- Adjusted EBITDA, excluding one-off items, was NOK 2.4 million (NOK 9.8 million), a decrease of NOK 7.4 million versus the first quarter. The drivers for the decrease are a reduction in income related to the Western Isles contract of NOK 3.2 million, an increase in employee expenses of NOK 3.3 million and increased overhead expenses of NOK 0.9 million versus Q1 2019.
- Operating costs increased by NOK 4.2 million (of which NOK 0.5 million is non-cash) compared to the previous quarter due to (1) M&A due diligence expenses for one potential acquisition, (2) success fees related to the Sembcorp transaction, (3) increased employee expenses due to severance pay, additional fees to the chairman, and the implementation of a new options program, a non-cash cost.
- Net profit decreased to NOK 2.3 million driven largely by the decrease in revenue and increase in expenses described above.
- At the Annual General Meeting ("AGM") held on May 21, 2019, an authorisation was granted to the Board of Directors to initiate a new share buyback program. As of the date of this report, Magnora owns no shares and can therefore still purchase up to NOK 2.57 million worth of shares under the program until the next AGM in 2020 or latest 30 June 2020.

- An options program was approved at the AGM, and the Chairman of the Board and the CEO have been granted 400,000 options each, and the two independent directors of the Board have been granted 50,000 options each. The cost of the options program will be recorded over the first 12 months following the approval date May 21, 2019, as the options are fully vested on May 21, 2020.
- The company has initiated a process of evaluating potential investment opportunities with the objective of realizing the strategic potential of the company and to generate further shareholder value. The company has considered a numerous amount of companies and investment opportunities over the last 9 months but to date none of the opportunities have fit the strict criteria for value creation for our shareholders.

## Key figures

NOK million	Q2 19	Q1 19	30.06.19	Q2 18	30.06.18	2018
<i>Continued operation</i>						
Revenues	10.0	13.2	23.2	15.0	42.4	70.4
EBITDA	2.3	9.8	12.1	4.9	26.3	42.1
Net Profit	2.3	7.9	10.2	5.4	27.9	87.2
EPS (NOK)	0.04	0.15	0.19	0.10	0.53	1.66
Operating cost, excluding one-off items *	-7.5	-3.4	-11.0	-3.6	-6.2	-13.9
Adjusted EBITDA *	2.4	9.8	12.2	11.4	36.2	56.6
Cash**	103.3	103.4	103.3	205.7	205.7	100.3
Equity ratio (%)	91%	93%	91%	85%	85%	90%
Number of shares outstanding	52.6	52.6	52.6	52.6	52.6	52.6
Number of employees ***	5	4	5	27	27	3

\* See definition of Alternative Performance Measures in Note 1.

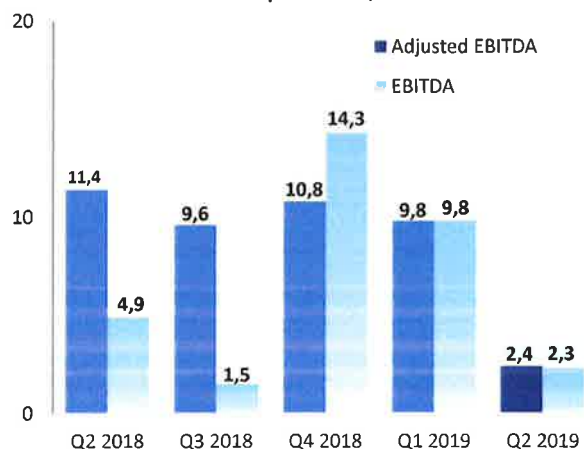
\*\* Cash and cash equivalents includes NOK 4 million in restricted cash held by Magnora's two Asia subsidiaries; Sevan Asia Pte Ltd and Sevan Shanghai Co Ltd which is expected to be available upon completion of the solvent liquidation process by year end 2019

\*\*\* Three of the employees are supporting SMIY post the transaction with 50% of their cost covered by SMIY

Revenue continued operations, NOK million



EBITDA continued operations, NOK million



## Operational review

### License agreements

Magnora is entitled to a variable license fee of USD 0.50 per barrel produced and offloaded from the Dana Western Isles FPSO (the "FPSO"). The associated license income for the second quarter 2019 was NOK 9.4 million (NOK 12.6 million)

The FPSO was completed in 2017 and first oil was achieved in Q4 2017. The FPSO is owned and operated by Dana Petroleum and is producing at the Western Isles development in the UK sector of the North Sea. The FPSO has a production capacity of 44,000 barrels per day. The Western Isles development is expected to have a field life of 15 years. The FPSO is expected to have a design life of 20 to 25 years, and thus could produce oil for longer than 15 years. Magnora's right to payments is tied to the FPSO, irrespective of operating location and field. Any potential oil field tied-back to the FPSO or any redeployment, irrespective of location, will also be subject to the payment obligations under the agreement. The Western Isles agreement is expected to generate income for Magnora in the years to come.

Post the transaction with SMİY, the financial benefit of the Shell Penguins License agreement remains with Magnora. The Penguins agreement gives Magnora the right to future license income of approximately USD 16 million from the Shell Penguins FPSO project. The final investment decision regarding the Shell Penguins Redevelopment project was taken in January 2018. Magnora received payment for the first milestone of USD 2.625 million (NOK 20.7 million) under the license agreement in Q1 2018. Further payments under the license agreement are subject to three milestones; the completion and sail away of the Penguins FPSO from the construction yard, the installation of the Penguins FPSO at the field and achievement of first oil, and the successful production, offloading and gas export of 4 million barrels which is estimated to be approximately 6 months after successful start-up. It is anticipated that the construction of the Penguins FPSO will be completed in Asia during mid 2021 with further milestones achieved thereafter.

## Financial review

### Results for the quarter

Operating revenue in the second quarter 2019 was NOK 10 million, NOK 3.2 million lower than the previous quarter. EBITDA was positive NOK 2.3 million (positive NOK 9.7 million) and net profit was NOK 2.3 million (profit of NOK 7.9 million).

The decrease in profit of NOK 5.6 million was driven largely by the decrease in revenue from the Dana contract and increases in employee and overhead expenses.

The net profit was negatively impacted by an increase in operating cost of NOK 4.2 million versus Q1. The increase in operating cost was mainly driven by an increase in employee expenses of NOK 3.3 million and increased overhead expenses of NOK 0.9 million. Net profit was positively impacted by currency exchange effects of NOK 0.1 million related to the USD license income from the Dana Western Isles project.

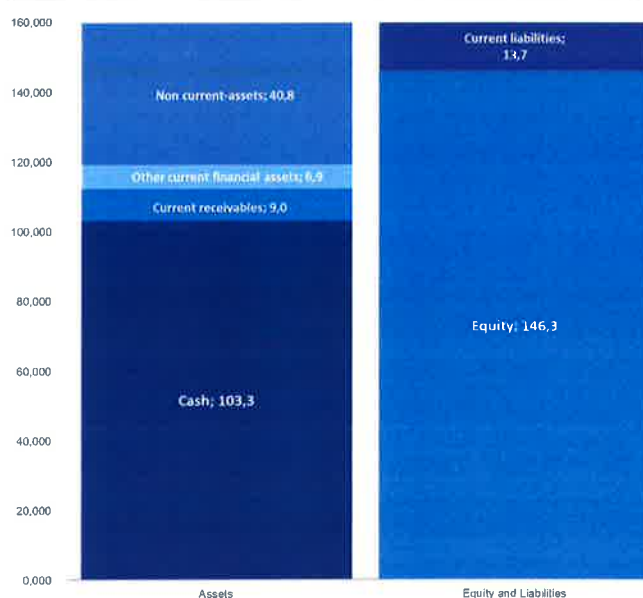
### Cash flow

As of June 30, 2019, cash and cash equivalents amounted to NOK 103.3 million (NOK 103.4 million). The minor negative cash flow in the quarter of NOK 0.1 million was mainly due to the purchase of marketable securities at cost NOK 6.6 million combined with an increase in employee related expenses. The company holds marketable securities as part of an effort to carefully increase the return on cash holdings. The shares are considered sufficiently liquid to allow Magnora ASA to sell the shares to meet short term working capital needs.

### Financial position

The equity ratio was 91 percent as of June 30, 2019.

Balance sheet composition June 30, 2019 (NOK million):



## Risk and uncertainty factors

Magnora is exposed to market risk, credit risk, currency risk and liquidity risk. The company's overall risk management program focuses on the uncertainty of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

Magnora's remaining customers are two major companies with a strong financial basis, but, as with suppliers and customers in general, there is a risk that unforeseen financial difficulties on the counterparty's side may arise which could have material adverse effects on the financial condition, the cash flows and/or the prospects of Magnora.

The company is also subject to currency, field development and reservoir risk in situations where the license fee is tied to the field development and production such as the Dana Western Isles income and Shell Penguins license fee income and paid in USD. The company also relies heavily on two customers, Dana Petroleum as well as Shell for most of its revenues over the next three to four years.

## Outlook

Magnora's main business activity is now focused on managing the Dana Western Isles and Penguins agreements retained by the company.

Magnora's corporate structure, following the completion of the SMIIY transaction, is organized to be as efficient and cost effective as possible. Magnora currently has only 5 part time staff. Given the current structure of the company, it is expected that total group operating costs will be in the range of NOK 17-19 million for the year 2019.

The company has initiated a process of evaluating potential investment opportunities with the objective of realizing the strategic potential of the company and to generate further shareholder value. The company has considered a numerous amount of companies over the last 9 months but to date none of the opportunities have fit our strict criteria for value creation for our shareholders.

Magnora is listed on the Oslo Stock Exchange with 3,943 shareholders

## Share buyback, capital reduction and dividends

On January 16, 2019, Magnora initiated a share buyback program. The buyback program was carried out by market purchases in accordance with the authorization granted by the extraordinary general meeting to the Board of directors on 18 December 2018. The program was terminated on April 24, 2019, and the shares were cancelled in accordance with the AGM held on May 21, 2019. As of the date of this report, Magnora owns zero shares. The board of directors has launched a new share buyback program based a new authorization from the Annual General Meeting ("AGM") held on May 21, 2019.

The board of Magnora may carry-out further distributions of capital to shareholders in 2019, in the form of dividends and/or reductions in share capital. The intention of the Board is to distribute the cash flow generated by the license agreements, in addition to any excess cash held by the company, to the extent legally permitted, to shareholders. Magnora will at the same time seek to maintain an appropriate cash balance in the company and will take this into consideration if proposing any dividends and/or distributions of capital. It is currently expected that a cash balance of approximately NOK 25-30 million will be retained by the company for working capital.

In order to facilitate further distributions, the board recommended to the AGM a share capital reduction, including a payout of NOK 1 per share, as well as the granting of an authorization to pay interim dividends to shareholders at the Annual General Meeting ("AGM") held on May 21, 2019. This was approved by the AGM, and the share capital reduction of NOK 1 per share was executed on July 4<sup>th</sup>, 2019.

## About Magnora

With the sale to SMİY completed on September 04, 2018, Magnora has sold its intellectual property, shares in HiLoad LNG AS and certain other assets and obligations to SMİY.

Magnora retains its net cash position, the Dana Western Isles license agreement and the financial benefit of the Shell Penguins license agreement.

At the general meeting held on May 21, 2019, it was approved to amend the objectives of the company as set out in the Articles of

Association to reflect that the objective of the company is the conduct of industry, trade and business associated with energy, IT and commodities, and sectors directly or indirectly related to these, in addition to investments in and acquisitions of businesses, securities, financial instruments and other assets, and participating in other businesses, directly or indirectly linked to these. The company will consider potential new investment opportunities with the objective of generating further shareholder value.

Oslo, August 23, 2019  
The Board of Directors of Magnora ASA



Torstein Sanness

Chairman



Hilde Adland

Board Member



John Hamilton

Board Member



Erik Sneve

CEO

# Interim financial statements (IFRS)

## Condensed consolidated income statement

NOK million	Note	Q2 19	Q1 19	30.06.19	Q2 18	30.06.18	2018
<b>Continued operations</b>							
Operating revenue	4	10.0	13.2	23.2	15.0	42.4	70.4
Operating expense		-7.7	-3.5	-11.2	-10.1	-16.1	-28.3
<b>EBITDA</b>		<b>2.3</b>	<b>9.8</b>	<b>12.0</b>	<b>4.9</b>	<b>26.3</b>	<b>42.1</b>
Depreciation, amortization and impairment		0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit/(loss)</b>		<b>2.3</b>	<b>9.8</b>	<b>12.0</b>	<b>4.9</b>	<b>26.3</b>	<b>42.1</b>
Financial income/(expense)	8	0.6	0.3	0.9	0.9	1.7	3.0
FX gain/(loss)	6	0.1	0.1	0.2	-0.5	-0.1	-1.1
<b>Net financial items</b>		<b>0.7</b>	<b>0.4</b>	<b>1.1</b>	<b>0.4</b>	<b>1.6</b>	<b>1.9</b>
<b>Profit/(loss) before tax</b>		<b>3.0</b>	<b>10.1</b>	<b>13.1</b>	<b>5.4</b>	<b>27.9</b>	<b>44.1</b>
Tax income/(expense)		-0.7	-2.2	-2.9	0.0	0.0	43.1
<b>Net profit/(loss) continued operations</b>		<b>2.3</b>	<b>7.9</b>	<b>10.2</b>	<b>5.4</b>	<b>27.9</b>	<b>87.2</b>
<b>Discontinued operations</b>							
Disposed group classified as held for sale	5	0.0	0.0	0.0	-6.7	-16.4	310.7
<b>Net profit/(loss) discontinued operations</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.4</b>	<b>310.7</b>
<b>Net profit/(loss)</b>		<b>2.3</b>	<b>7.9</b>	<b>10.2</b>	<b>-1.3</b>	<b>11.5</b>	<b>398.0</b>

## Statement of comprehensive income

NOK million	Q2 19	Q1 19	30.06.19	Q2 18	30.06.18	2018
Net profit/(loss)	2.3	7.9	10.2	-1.3	11.5	398.0
Foreign currency translation	0.1	-0.1	0.0	0.5	-0.2	0.7
Other changes	0.0	0.0	0.0	0.0	-0.2	-0.2
<b>Total comprehensive income</b>	<b>2.4</b>	<b>7.7</b>	<b>10.2</b>	<b>-0.8</b>	<b>11.1</b>	<b>398.5</b>



## Condensed statement of financial position

NOK million	Note	30.06.19	31.03.19	30.06.18	31.12.18
Fixed assets		0.0	0.0	0.0	0.0
Intangible assets		0.0	0.0	0.0	0.0
Deferred tax assets	2	39.9	40.6	0.0	42.8
Investment in associates		0.3	0.3	0.0	0.3
Loan to associates		0.6	0.6	0.0	0.2
Other non-current assets		0.0	0.0	0.0	0.0
<b>Total non-current assets</b>		<b>40.8</b>	<b>41.4</b>	<b>0.0</b>	<b>43.3</b>
Trade and other receivables		9.0	9.7	16.1	6.6
Other current financial assets	8	6.9	0.0	0.0	0.0
Cash and cash equivalents		103.3	103.4	205.7	100.3
<b>Total current assets</b>		<b>119.2</b>	<b>113.1</b>	<b>221.8</b>	<b>107.0</b>
Assets held for sale		0.0	0.0	7.6	0.0
<b>Total assets</b>		<b>160.0</b>	<b>154.6</b>	<b>229.4</b>	<b>150.2</b>
Share capital	3	78.4	78.4	210.4	78.4
Treasury shares	3	0.0	0.0	0.0	0.0
Other equity	7	67.9	65.1	-14.6	57.4
<b>Total shareholders' equity</b>		<b>146.3</b>	<b>143.4</b>	<b>195.9</b>	<b>135.8</b>
Non-controlling interest		0.0	0.0	0.2	0.0
<b>Total equity</b>		<b>146.3</b>	<b>143.4</b>	<b>196.0</b>	<b>135.8</b>
Other non-current liabilities		0.0	0.0	0.0	0.0
<b>Total non current liabilities</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Current liabilities		13.7	11.1	26.1	14.4
<b>Total current liabilities</b>		<b>13.7</b>	<b>11.1</b>	<b>26.1</b>	<b>14.4</b>
<b>Total liabilities</b>		<b>13.7</b>	<b>11.1</b>	<b>26.1</b>	<b>14.4</b>
Liabilities held for sale		0.0	0.0	7.3	0.0
<b>Total equity and liabilities</b>		<b>160.0</b>	<b>154.6</b>	<b>229.4</b>	<b>150.2</b>

## Condensed statement of changes in equity

NOK million	Share capital	Other equity	Treasury shares	Total equity
<b>Equity as of January 1, 2019</b>	<b>78.4</b>	<b>57.4</b>	<b>0.0</b>	<b>135.8</b>
Total comprehensive income for the period		10.2		10.2
Aquired treasury shares*		-0.1	0.0	-0.1
Share based payments		0.4		0.4
<b>Equity as of June 30, 2019</b>	<b>78.4</b>	<b>68.0</b>	<b>0.0</b>	<b>146.3</b>

\* As of June 30, 2019, Magnora owned 20 301 shares or 0.04 percent of total shares outstanding through the share repurchase program.

NOK million	Share capital	Other equity	Non-controlling interest	Total equity
<b>Equity as of January 1, 2018</b>	<b>210.4</b>	<b>-26.7</b>	<b>0.3</b>	<b>184.0</b>
Share-based payments		0.4		0.4
Total comprehensive income for the period		398.8	-0.3	398.5
Capital reduction and distribution	-132.0	0.5		-131.5
Paid dividend		-315.6		-315.6
<b>Equity as of December 31, 2018</b>	<b>78.4</b>	<b>57.4</b>	<b>0.0</b>	<b>135.8</b>

## Condensed statement of cash flow

NOK million	Q2 19	Q1 19	30.06.19	30.06.18	2018
<b>Cash flows from operating activities</b>					
Cash from operations	-0.1	3.5	3.3	26.1	43.5
Taxes paid/repaid	0.0	0.0	0.0	0.0	0.3
<b>Net cash generated from continued operating activities</b>	<b>-0.1</b>	<b>3.5</b>	<b>3.3</b>	<b>26.1</b>	<b>43.8</b>
Net cash generated from discontinued operating activities	0.0	0.0	0.0	-17.7	-20.5
<b>Net cash generated from operating activities</b>	<b>-0.1</b>	<b>3.5</b>	<b>3.3</b>	<b>8.4</b>	<b>23.3</b>
<b>Cash flows from investment activities</b>					
Sale of business to Sembcorp	0.0	0.0	0.0	0.0	327.1
Purchase of shares Arendal Brygge AS	0.0	0.0	0.0	0.0	-0.3
Loan to Arendal Brygge AS	0.0	-0.4	-0.4	0.0	-0.2
<b>Net cash from continued investment activities</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>0.0</b>	<b>326.6</b>
Net cash from discontinued investment activities	0.0	0.0	0.0	0.0	0.0
<b>Net cash from investment activities</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.4</b>	<b>0.0</b>	<b>326.6</b>
<b>Cash flows from financing activities</b>					
Dividends paid	0.0	0.0	0.0	0.0	-315.6
Capital reduction paid out	0.0	0.0	0.0	0.0	-131.5
<b>Net cash from continued financing activities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-447.2</b>
Net cash from discontinued financing activities	0.0	0.0	0.0	0.0	0.0
<b>Net cash from financing activities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-447.2</b>
<b>Net cash flow for the period – continued activities</b>	<b>-0.1</b>	<b>3.1</b>	<b>2.9</b>	<b>26.1</b>	<b>-76.7</b>
<b>Net cash flow for the period – discontinued activities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-17.7</b>	<b>-20.5</b>
Cash balance at beginning of period	103.4	100.3	100.3	197.5	197.5
<b>Cash balance at end of period</b>	<b>103.3</b>	<b>103.4</b>	<b>103.3</b>	<b>205.9</b>	<b>100.3</b>

## Selected notes to the quarterly financial statements

### 1. General information and accounting policies

Magnora ASA's objective is the conduct of industry, trade and business associated with energy, IT and commodities, and sectors directly or indirectly related to these, in addition to investments in and acquisitions of businesses, securities, financial instruments and other assets, and participating in other businesses, directly or indirectly linked to these.

Magnora ASA is a public limited company, incorporated and domiciled in Norway. The condensed consolidated interim financial statements consist of the company and the company's interests in associated companies.

The company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by EU and these financial statements have been prepared in accordance with the International Accounting Standard for Interim Financial Reporting (IAS 34). As the interim financial statements do not include the full information and disclosures as required in the annual financial statements, it should be read in connection with the Annual Financial Statements for 2018.

The European Securities and Markets Authority (ESMA) issued guidelines on Alternative Performance Measures ("APMs") that came into force on 3 July 2016. Magnora has defined and explained the purpose of the following APMs:

**Operating cost, excluding one-off items:** Management believes that "Operating cost, excluding one-off items" which excludes cost or cost reductions that arise from circumstances other than operation is a useful measure because it provides an indication of the company's operating cost base for the period without regard to significant historical and non-operational events that are expected to occur less frequently.

**Adjusted EBITDA:** Management believes that "Adjusted EBITDA" which excludes "one-off items" is a useful measure because it provides an indication of the profitability of the company's operating activities for the period without regard to significant historical and non-operational events that are expected to occur less frequently.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Annual Financial Statements for the year ended December 31, 2018.

The company implemented IFRS 16 as of January 01, 2019 and there has been no changes to the company's financial statements as a result.

#### **Assets and liabilities held for sale and discontinued operations**

The Group classifies assets and liabilities as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or liability is available for immediate sale in its present condition.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 6. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

On June 07, 2018 Magnora entered into an agreement to sell its intellectual property, employees, shares in HiLoad LNG AS and certain other assets and liabilities to SMIIY. On September 04, 2018 the transaction was completed. The associated income and costs are reported as discontinued operations. Magnora retains its net cash position, the Dana Western Isles license agreement and the financial benefit of the Shell Penguins license agreement which are reported as continued operations.

## 2. Accounting estimates and judgements

Deferred tax assets are recognised for unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised in the future. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. The recognised deferred tax asset is most sensitive to expected future taxable profits. The deferred tax asset recognized is expected to be utilised within the next 5 years based upon on the companys contract portfolio and cost base as of today. The book value of the deferred tax asset represents a minor part of the total accumulated tax losses of over NOK 3.5 billion.

## 3. Shareholder structure

20 largest shareholder accounts August 08, 2019 (source: VPS)	No. of shares	%-share
DNB Markets Aksjehandel/-analyse	8,045,828	15.33
SKANDINAVISKA ENSKILDA BANKEN AB	3,307,516	6.29
F2 FUNDS AS	3,253,745	6.19
MATHIAS HOLDING AS	3,187,561	6.06
HORTULAN AS	3,046,257	5.79
KING KONG INVEST AS	2,343,795	4.46
CARE HOLDING AS	2,300,000	4.37
SUNDT AS	2,142,202	4.07
PREDATOR CAPITAL MANAGEMENT AS	1,702,667	3.24
MP PENSJON PK	1,570,499	2.99
ANDENERGY AS	1,558,140	2.96
Patineer Management LLC	1,406,277	2.67
Invesco European Smaller Compan Fd	1,259,775	2.40
DANSKE BANK AS	1,219,441	2.32
BEKKESTUA EIENDOM AS	1,150,019	2.19
ALTEA PROPERTY DEVELOPMENT AS	950,967	1.81
SIX SIS AG	859,252	1.63
BAKLIEN	700,000	1.33
INVESCO FUNDS	642,876	1.22
SJØLUNO	521,000	0.99
<b>Total, 20 largest shareholders</b>	<b>41,167,817</b>	<b>78.31</b>
Other shareholder accounts	11,418,881	21.69
<b>Total no of shares</b>	<b>52,586,698</b>	<b>100.00</b>
Foreign ownership	6,413,428	12.20

\*Magnora's largest shareholder is Kistefos AS who owns most of the shares held by DNB Markets Askjehandel/-analyse and Skandinaviske. In total, Kistefos AS holds 11,027,013 shares in the company equal to 20.96% of shares outstanding.

## 4. Operating revenue

NOK million	Q2 19	Q1 19	30.06.19	Q2 18	30.06.18	2018
<b>Continued operations</b>						
License revenue	9.4	12.6	22.0	15.0	42.4	69.7
Other revenue	0.6	0.6	1.2	0.0	0.0	0.8
<b>Operating revenue continued operations</b>	<b>10.0</b>	<b>13.2</b>	<b>23.2</b>	<b>15.0</b>	<b>42.4</b>	<b>70.4</b>

## 5. Discontinued operations

On 8 June, 2018, Magnora publicly announced the decision of its Board of Directors to enter into an agreement to divest a substantial part of its business to SMIY. On 6 July 2018, the shareholders of Magnora approved the transaction, and on September 04, 2018, the transaction was completed. The part of the business sold is classified as discontinued operations.

The results of the discontinued operations related to the sale to SMIY are presented below:

NOK million	Q2 19	Q1 19	30.06.19	Q2 18	30.06.18	2018
Operating revenue	0.0	0.0	0.0	7.9	11.3	20.8
Operating expense	0.0	0.0	0.0	-14.2	-26.8	-37.4
<b>EBITDA</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.3</b>	<b>-15.5</b>	<b>-16.6</b>
Depreciation, amortization and impairment	0.0	0.0	0.0	-0.4	-0.9	-1.1
<b>Operating profit/(loss)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.3</b>	<b>-17.7</b>
Financial income/(expense)	0.0	0.0	0.0	0.0	0.0	328.6
FX gain/(loss)	0.0	0.0	0.0	0.0	-0.1	-0.1
<b>Net financial items</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>328.5</b>
<b>Profit/(loss) before tax</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.4</b>	<b>310.7</b>
Tax income/(expense)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit/(loss)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-6.7</b>	<b>-16.4</b>	<b>310.7</b>

## 6. Hedging

The Dana Western Isles royalty income is received in USD. To reduce the currency risk, Magnora has hedged a portion of the expected royalty income through December 2019. For the period July to December 2019, Magnora has hedged a total of USD 1.2 million at an average exchange rate of NOK/USD 8.44. The mark-to-market value of the instruments in the balance sheet at June 30, 2019 is NOK 0.1 million negative.

## 7. Options

An options program was approved at the AGM, and the Chairman of the Board and the CEO have been granted 400,000 options each, and the two independent directors of the Board have been granted 50,000 options each. The cost of the options program will be recorded over the first 12 months following the approval date May 21, 2019, as the options are fully vested on May 21, 2020. The total cost of the options is NOK 4.3 million and NOK 482,643 has been recognized for Q2 in accordance with IFRS 2.

## 8. Financial assets

In accordance with authorisation from the Board of Directors, Magnora ASA purchased marketable securities worth NOK 6.6 million in Q2 2019. The company holds marketable securities as part of an effort to carefully increase the return on cash holdings. The shares are considered sufficiently liquid to allow Magnora ASA to sell the shares to meet short term working capital needs.

The financial assets are recognised in the Balance Sheet at fair value. Unrealised fair value changes are recognised in the profit and loss as financial income/(expense).

## 9. Subsequent events

### Capital reduction

The Board of Directors of Magnora proposed at the Annual General Meeting held on May 21, 2019, to carry out a capital reduction of NOK 30,248.49 by redemption of all treasury shares acquired by Magnora under the share buyback program. The Board also proposed an additional capital reduction with repayment to shareholders of NOK 52,586,698 by reducing the par value of each share from NOK 1.49 to NOK 0.49. Both proposals were approved by the AGM and were executed on July 4, 2019.

### Share purchase

Additional marketable securities worth approximately NOK 1.5 million have been purchased in Q3 2019.

## Responsibility statement

We confirm, to the best of our knowledge, that the interim consolidated financial statements for the period January 1 to June 30, 2019 have been prepared in accordance with IAS 34 - Interim Financial Reporting, and give the true and fair view of the Group's assets, liabilities, financial position and profit and loss as a whole. We also confirm, to the best of our knowledge,

that the Interim Financial Report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions

Oslo, August 23, 2019  
The Board of Directors of Magnora ASA



Torstein Sanness

Chairman



Hilde Ådland

Board Member



John Hamilton

Board Member



Erik Sneve

CEO