

NOBLE GROUP LIMITED
(Incorporated in Bermuda with limited liability)

**RESPONSE TO SGX QUERIES REGARDING
FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017**

Noble Group Limited (“the Group”) is responding to questions, set out below, received from the SGX:

- 1. We refer to note 1(a)(i)(A)(#2)(*1) to the Full Year Financial Statements and Dividend Announcements in relation to the Exceptional Items of US\$2.3b.**
- 1.1. Management’s Discussion and Analysis of Financial Condition & Results of Operations which stated that “The Group recorded non-cash losses of approximately US\$(2,150) million in FY 2017 from the application of additional reserves and valuation adjustments to its net fair value gains on commodity contracts and derivative financial instruments. These additional reserves and valuation adjustments were recorded initially in 2Q 2017 with further amounts recorded in 4Q 2017. The amounts recorded relate to increased reserves in respect of adverse back testing results in 1H 2017, increases in the discount rate used in the Group’s valuations of its physical commodity contracts and derivative financial instruments, including the impact of credit rating downgrades and the Group’s increased cost of funding as reflected in its trade finance facilities, along with additional reserves to reflect increased risks since the initial recognition of the Group’s physical commodity contracts and derivative financial instruments portfolio – in particular, risks relating to the Group’s operating environment, trading terms and current access to funding”.**
- 1.2. In relation to additional reserves due to increased risks relating to (a) the Group’s operating environment; (b) trading terms and (c) current access to funding, please assist with the following:**

Please elaborate (i) each of the above-mentioned factors; (ii) how each of these factors have resulted in additional reserves; and (iii) whether these factors are also backed by market data. Additionally, the Company should provide the details of the market data if applicable.

During the year ended 31 December 2017, the Group recorded exceptional items in its operating income from supply chains as referenced in note 1(a)(i)(A)(#2)(*1) to the Full Year Financial Statements and Dividend Announcement. These exceptional items included non-cash losses of approximately US\$(2,150) million from the application of additional reserves

and valuation adjustments to its net fair value gains on commodity contracts and derivative financial instruments.

The change in reserving approach was a result of a Board mandated detailed reassessment of the Group's balance sheet reserves as part of the strategic review (commenced in May 2017).

These additional reserves and valuation adjustments were recorded initially in 2Q 2017 with further amounts recorded in 4Q 2017. The amounts recorded relate to increased reserves in respect of adverse back testing results in 1H 2017, increases in the discount rate used in the Group's valuations of its physical commodity contracts and derivative financial instruments, including the impact of credit rating downgrades and the Group's increased cost of funding as reflected in its trade finance facilities, along with additional reserves to reflect increased risks since the initial recognition of the Group's physical commodity contracts and derivative financial instruments portfolio – in particular, risks relating to the Group's operating environment, trading terms and current access to funding.

Much of the Group's net fair value gains on commodity contracts and derivative financial instruments balance was recorded at a time when the operating environment, trading terms and access to funding were significantly more favourable. The following are important elements of the Group's risk profile and changes in these items were highlighted during the strategic review and over the course of FY 2017:

- **Operating environment and trading terms:** the operating environment became significantly more challenging for the Group following the announcement of a loss for 1Q 2017. Market and lender reaction to these quarterly results led to significant challenges for the Group in managing and supporting its supply chain and hedging activities, and in restoring the confidence of its lenders, suppliers, customers and other counterparties.

For example, constraints placed on the Group's access to trade finance lines led to interruptions in normal trade flows which resulted in disruption costs and prevented the Group from taking advantage of profitable trading opportunities. Meanwhile, certain trading counterparties moved from open credit terms to secured financing (via letters of credit) resulting in increased costs and compounding the challenge of constrained trade finance capacity. In particular, this impacted the Group's off-take agreements.

In addition, as announced on 18 May 2017, the exceptional movements and dislocation in coal markets in 1Q 2017, with prices decoupling, liquidity dropping significant and long-term relative correlations being significantly interrupted, reflected a significant change in observable valuation inputs and informed the decision to fully reserve the Level 3 balance, which primarily comprises unobservable valuation inputs; and

- **Access to funding:** the Group experienced both credit rating downgrades and constrained access to bank financing following the announcement of a loss for 1Q 2017. This was demonstrated as a reduction in the size of the Group's bilateral trade finance facilities with banks, additional cash margin posting requirements under these facilities and an increase in the cost of these facilities.

The approximately US\$(2,150) million of exceptional items recorded from the application of additional reserves and valuation adjustments to the Group's net fair value gains on commodity contracts and derivative financial instruments during FY 2017 included:

- Approximately US\$600 million recorded in 2Q 2017 of reserves and valuation adjustments against certain Level 2 balances including applying additional reserves to certain contracts as a result of adverse back testing results and the impact of credit rating downgrades on discount rates;
- Approximately US\$600 million recorded in 2Q 2017 from reserving the entire Level 3 balance (as referred to above);
- Approximately US\$650 million recorded in 4Q 2017 from increases in the discount rate used in the Group's valuations, including the impact of further credit rating downgrades and the Group's increased cost of funding as reflected in its trade finance facilities.

During 2H 2017 and subsequent to 31 December 2017, the Group's credit rating was further downgraded by the major ratings agencies with S&P lowering the Group's long term foreign issuer credit rating from CCC+ to CC, Moody's lowering the Group's senior unsecured debt rating from Caa1 to Ca and Fitch lowering the Group's senior unsecured debt rating from CCC to C. Meanwhile, the Group experienced an increase in the cost of its trade finance facilities during this period – including additional cash margin posting requirements and additional fees related to the Group's continued utilisation under certain trade finance facilities.

The Group's valuation models incorporate discount rate curves constructed with US Dollar 3 month Libor interest rate swap rates ("USD 3M"), an observable credit default swap ("CDS") curve based on the Group's credit rating and an observable CDS curve based on the credit rating of the counterparty. The USD 3M is obtained from Bloomberg and the CDS curves are purchased from Markit Partners.

At 31 December 2017, the discount rate curve was constructed linking the yield-to-maturity of the Group's outstanding senior notes after the proposed financial restructuring announcement made on 29 January 2018 (the only observable data point for unsecured funding) to the CCC CDS curve (observable data point). This resulted in a sharp increase in the discount rates used by the Group and a

corresponding reduction in the Group's net fair value gains on commodity contracts and derivative financial instruments balance; and

- Approximately US\$300 million recorded in 4Q 2017 from applying additional reserves and valuation adjustment to certain contracts. These amounts were determined based upon changes in the assessment of recoverability under certain contracts, including due to non-performance, dispute or commercial renegotiation, as directed by the Group's Credit Risk function in accordance with the risk management governance set out in note B7.1 of the Group's Full Year Financial Statements.

1.3. Please advise on the key changes to conditions faced by the Group since its release of the financial results for half-year ended 30 June 2017, during which additional reserves and valuation adjustments were recorded.

The change in reserving approach was a result of a Board mandated detailed reassessment of the Group's balance sheet reserves as part of the strategic review (commenced in May 2017). These additional reserves and valuation adjustments were recorded initially in 2Q 2017 with further amounts recorded in 4Q 2017.

The change in reserving approach was not determined by one specific factor but by a series of risks relating to the Group's operating environment, trading terms and access to funding over the course of FY 2017. Refer to response 1.2 above for specific examples of these risks.

1.4. As disclosed in the MD&A of the Energy Segment, the Energy Coal indices were stronger in FY2017, with increases quarter-on-quarter and year-on-year. Please elaborate on whether the stronger Energy Coal indices has had any impact on the net fair value gains on commodity contracts and derivative financial instruments. The Company should also quantify the impact, if applicable.

Energy Coal (also referred to as thermal coal) indices were stronger in FY 2017 with average prices higher quarter-on-quarter and year-on-year. The higher prices were reflected in the forward curves used to mark the Group's net fair value gains on commodity contracts and derivative financial instruments, however the increase was more than offset by the impact of the reserves and valuation adjustments as described in response 1.2 above.

2. We refer to note 1(a)(i)(A)(#2)(*2) in relation to the non-cash losses on impairment and disposal of non-current assets of approximately US\$903m.

Please disclose the factors which contributed to the impairments and whether Noble had sought professional advice in determining the impairments.

(a) Impairment loss on Property, Plant and Equipment of US\$169m;

The impairment losses of US\$169 million recorded on the Group's property, plant and equipment were primarily driven by the write down of the Group's palm plantation assets held for sale, dry bulk carrier vessels and capitalised information technology costs as follows:

- The Group's palm plantations are classified asset held for sale as at 31 December 2017. The impairment loss recorded of US\$80 million was recorded in FY 2017 to update their carrying value to the expected recoverable amount from sale;
- The Group's dry bulk carrier vessel valuations are impacted by multiple factors including estimated future dry carrier fleet and seaborne trade growth and residual values. The Group's valuation reflects, inter alia, data purchased from Marsoft Inc., a leading advisory group providing quantitative analysis of the maritime marketplace. Impairment losses of US\$44 million recorded in FY 2017 were driven by increased discount rates and projections of future operating costs; and
- The Group capitalises information technology costs when it is demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from that expenditure. As the Group has sought to reduce its footprint as part of the strategic review, capitalised costs of US\$37 million largely relating to divested or contracted business units have been written off.

(b) Impairment loss on investments in associates of US\$112m

The impairment losses of US\$113 million recorded on the Group's investments in associates are disclosed in note C4.6 in the Group's Full Year Financial Statements. The impairment losses are primarily related to the following investments:

- Baralaba Coal ("Baralaba") US\$32 million – ASX-listed Baralaba went into voluntary administration in July 2017 following an unsuccessful attempt to raise adequate funds to re-start the Baralaba North Mine and meet on-going working capital and debt obligations. In view of the above, the Group impaired the carrying value of Baralaba to US\$nil.
- East Energy Resources ("EER") US\$19 million – ASX-listed EER requested a voluntary suspension of its securities in September 2017. The Group, having re-assessed the carrying value of its investment at that date, reduced the carrying value to US\$nil.

- Aspire Mining (“Aspire”) US\$28 million – The Group acquired additional shares in ASX-listed Aspire in 2017 at the market traded price and increased its shareholding from 10.4% to 19.9%. The Group, having re-assessed the carrying value of its investment at that date, reduced the carrying value of its investment in Aspire to its quoted market price.
- PT Atlas Resources (“PT Atlas”) US\$35 million – The Group reclassified the investment in PT Atlas from an investment in an associate to a long term equity investment following the loss of the Group’s capacity to exercise significant influence. The investment has been stated at its quoted market price of US\$24 million as at 31 December 2017, resulting in an impairment loss.

(c) Impairment loss on prepayments and other receivables of US\$169m.

The impairment loss on prepayments and other receivables of US\$169 million was determined based on the year end 2017 evaluation of collectability and ageing analysis of each receivable/asset. Relevant factors included financial difficulties of debtors, default or significant delay in payments and other market conditions.

These impairment losses were determined based upon changes in the assessment of recoverability as directed by the Group’s Credit Risk function in accordance with the risk management governance set out in note B7.1 of the Group’s Full Year Financial Statements.

3. We refer to note 1(b)(i) in relation to the Statement of Financial Position (for the issuer and the group).

3.1. Please provide an explanation in relation to the variances in the following balance sheet items:

- (a) Trade receivables;**
- (b) Trade payables; and**
- (c) Fair value losses on commodity contracts and other derivative financial instruments.**

The Group’s trade receivable, trade payables and fair value losses on commodity contracts and other derivative financial instruments were lower from 31 December 2016 to 31 December 2017 primarily due to the monetisation of the Group’s Global Oil Liquids and North American Gas & Power businesses as part of the strategic review. The Group’s trade receivables also include impairments of US\$109 million (set out in note B2.3 of the Group’s Full Year Financial Statements).

The Group's statement of financial position at 31 December 2016 included amounts related to the Global Oil Liquids and North American Gas & Power businesses.

However, the statement of financial position at 31 December 2017 included minimal Global Oil Liquids and North American Gas & Power balances due to the following:

- the Group having disposed of the North American Gas & Power business in September 2017;
- the assets and liabilities of Noble Americas Corp (the entity through which the Global Oil Liquids business was primarily conducted) being classified as held for sale at 31 December 2017; and
- certain remaining Global Oil Liquids balances in Noble Clean Fuels Limited having already been wound down as at 31 December 2017.

Noble Group Limited
8 March 2018

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About Noble Group

Noble Group (SGX: CGP) manages a portfolio of global supply chains covering a range of industrial and energy products. Noble facilitates the marketing, processing, financing and transportation of essential raw materials. Sourcing bulk commodities from low cost regions such as South America, South Africa, Australia and Indonesia, the Group supplies high growth demand markets, particularly in Asia and the Middle East. For more information please visit www.thisisnoble.com.

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