

## Annual Report 2017


### Spirit Energy Danmark ApS

Rådhuspladsen 16, 1550 København V  
Central Business Registration No 31627117

30-05-2018

The Annual General Meeting adopted the annual report on ~~25-05-2018~~

Chairman of the General Meeting

  
David Munch

## **Entity details**

### **Entity**

Spirit Energy Danmark ApS  
Rådhuspladsen 16  
1550 København

Central Business Registration No: 31627117

Registrered in: København

Financial year: 01.01.2017 – 31.12.2017

### **Board of Directors**

Arne Torbjørn Westeng, Chairman  
Jens-Patric Miguel Hirtz  
Dag Halvard Omre

### **Executive Board**

Jens-Patric Miguel Hirtz

### **Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
Postboks 1600  
0900 København C

## Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Spirit Energy Danmark ApS for the financial year 01.01.2017 - 31.12.2017.

The annual report is presented in accordance with the Danish Financial Statement Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Oslo, 25.05.2017

### Executive Board

Jens-Patric Miguel Hirtz  
Managing Director

### Board of Directors



Arne Torbjørn Westeng  
Chairman



Jens-Patric Miguel Hirtz  
Managing Director  
Board Member



Dag Halvard Smre  
Board Member

## **Independent auditor's report**

### **To the shareholders of Spirit Energy Danmark ApS**

#### **Opinion**

We have audited the financial statements of Spirit Energy Danmark ApS for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial Statements Act.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter regarding circumstances in the financial statements**

We draw attention to the report from the Board of Directors and Note 4 and Note 8 in the financial statements.

Book value related to the Hejre field amounts to TDKK 777,886. Material uncertainty exists relating to the outcome of the concept screening for the Hejre redevelopment and the timing of the payments of the costs relating to the Fredericia transportation arrangement, and consequently to the determination of the recoverable value of the Hejre field.

Our opinion is not modified in respect of this matter.

#### **Management's responsibilities for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



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

#### **Auditor's responsibilities for the audit of the financial statements**

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

**Statement on the management commentary**

Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Slagelse, 25.05.2018

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
Business Registration No 33 96 35 56



Lars Hillebrand  
State-Authorised  
Public Accountant  
MNE no 26712

## Spirit Energy Danmark ApS

### Management Commentary

#### 1. The Business

Spirit Energy Danmark ApS ("The Company") is an oil and gas exploration and field development company registered in Denmark. The Company holds ownership in four licenses and one unit on the Danish continental shelf; 15% in license 5/98 (Hejre), 12% in license 1/06 (Hejre Extension), and 27,66% in Solsort Unit. The ownership in Solsort Unit is the result of ownership in two of the Unit licenses; 30% in parts of license 4/98 and 30% in parts of license 3/09. INEOS Oil and Gas Denmark is the operator of all these licenses.

The Company is a 100% owned subsidiary of Bayerngas Norge AS.

#### 2. Continued Operations

The financial statements have been presented based on the assumption of continued operations, and the Board of Directors confirms that the prerequisites for this assumption are present. The basis for this evaluation by the Board of Directors is the Company's plans for investment, continued development of the Hejre field, long-term cash flow prognoses and a commitment by Spirit Energy Ltd to finance the Company's activities as the Company is dependent on the availability of financing to fulfil its ongoing obligations as they fall due.

#### 3. Main Activities in 2017

In 2017 Dong Energy concluded a Sales and Purchase Agreement with INEOS divesting its Oil and Gas Business. After this transaction INEOS Oil and Gas Denmark is now operator of Hejre and Solsort.

Following the termination of the Hejre EPC contract in 2016, several re-development concepts have been studied for Hejre, both stand-alone concepts and as combined Hejre and Solsort developments. Main concepts studied during 2017 included utilization of a rented facility, tie-in to host platform, and a new Top-Side.

The intent was to pass a feasibility gate by end 2017. However, the rented facility was contracted by another field development and the concepts based on a new topside on Hejre and the hosted solution were economically challenging, hence further optimizations were considered necessary. In addition, the announced start of a sales process of the operator for the hosted solution has influenced maturation of the hosted concept. In order to improve the business cases, it was therefore decided to continue the feasibility phase into 2018.



The license partners are committed to continue the redevelopment of the Hejre field and development of the Solsort discovery in order to utilize the already installed jacket, wells and export infrastructure.

As a result of the delayed Hejre development, the Hejre license partners have during 2017 been in negotiations with Danish Oil Pipe (DOP) regarding an amendment to the Hejre Transportation Agreement. An amendment to the Model Transportation Agreement, which will give 3<sup>rd</sup> party shippers in the Gas Separation Facility predictable tariffs, has also been negotiated with DOP. Both amendments are still work in progress.

#### **4. Outlook**

The extended feasibility phase for Hejre and Solsort will continue through 2018 with an expected feasibility gate passing in Q3, 2018.

The existing Hejre PDO will be updated/amended to serve as basis for the continued development. Indicative timing for an updated PDO is mid-2019. However further deferral must be expected if it is decided to drill an appraisal/exploration well. First oil is expected in the period 2021-2024, depending on development concept and drilling of well.

Hejre expects to conclude the amendment to the Hejre Transportation Agreement with DOP during 2018. The same applies for the amendment to the Model Transportation Agreement.

The Solsort Unit licensees plan to pass feasibility gate for the Solsort development at the same time as Hejre. In the 30-year production permit granted to Solsort Unit in 2015, it was set as condition that Solsort Unit delivers a PDO before 29 June 2018. Solsort Unit has asked for a deferral of the PDO deadline with one year. It is expected that such extension will be granted.

#### **5. Health, Safety and Work Environment**

The Company had one employee in 2017.

The Board of Directors is not aware of any incidents or accidents under the responsibility of the Company that might have caused injury or environmental damage during 2017.

#### **6. Gender Equality and Non-Discrimination Measures**

The Spirit Energy Group is an equal opportunity employer and practices full gender equality. The employee is a male. The Board of Directors has three members, all men. The Managing Director is male.

#### **7. Corporate Social Responsibility**

Corporate social responsibility policies of the parent company and its subsidiaries are commented upon in the annual report of the parent company Bayerngas Norge AS

#### **8. Report of Financial Statement**



## 8. Report of Financial Statement

Net loss for the year is MDKK 220, compared to a loss of MDKK 534 in 2016. The negative result is mainly due to impairment of the Hejre asset.

It is the Board of Directors' opinion that the financial statements, which include income statement, balance sheet and notes, give a true and fair view of the state of the affairs of the Company.

## 9. The Company's Financial Position

The Company does not yet have any sales revenue, and is currently fully financed by equity. The company does not have external debt. Spirit Energy Ltd has expressed their intention of continued financial support.

## 10. Uncertainties

### *Business risks*

Development of gas and oil fields implies risks, such as finding and applying feasible solutions, both economically and technically. There are also uncertainties related to production capacity, reserves, geological conditions, future oil and gas prices and currency exchange rates.

### *Reserve estimates*

Expected reserves are used as one of the criteria for impairment testing in the Group. Expected reserves are the estimated remaining commercially recoverable quantities from projects in operation or justified for development based on judgement of future economic conditions. Recoverable oil and gas quantities are always uncertain, and the expected value is the weighted average of possible outcomes (the statistical mean from probabilistic estimates or the best technical estimate if only deterministic methods have been applied). Expected oil and gas reserves are based on Operator's estimates.

### *Hejre project*

The Hejre field continues to be a challenging development project. The reduced reserves together with lower oil prices compared with the assumptions at the PDO stage, challenges the economy of the continued project. However, current feasibility work and considered possible synergies by a co-development with Solsort can to some extent mitigate this situation. The management has estimated recoverable amount on the Hejre field based on its best judgement and emphasizes the uncertainty relating to the Hejre project. The recoverable amount and associated impairment is sensitive to changes in reserves, prices, costs, timing and cost of capital.

## 11. Allocation of Financial Result

It is the Board of Directors' opinion that the financial statements, which include income statement, balance sheet and notes, give a true and fair view of the state of the affairs of the Company.

The Board of Directors recommends that the Company allocate the 2017 net loss for the year as presented in the income statement.

## 12. Events After the Balance Sheet Date

There were no adjusting or material non-adjusting post balance sheet events.

## Spirit Energy Danmark ApS

### Income Statement (DKK: 1 000)

	Notes	2017	2016
<b>OPERATING EXPENSES</b>			
Other operating income		2 115	5 614
Exploration expenses		-27 746	-16 839
Production expenses		-526	-98 330
Other operating expenses		-11 687	-18 231
<b>GROSS INCOME/LOSS (-)</b>		<b>-37 844</b>	<b>-127 786</b>
Payroll and related expenses		-1 905	-2 929
Impairment of intangible and tangible assets		-143 103	-360 000
<b>OPERATING INCOME/LOSS (-)</b>		<b>-182 851</b>	<b>-490 715</b>
<b>FINANCIAL ITEMS</b>			
Financial income	2	3 352	9 950
Financial expenses	3	-40 596	-53 626
<b>NET INCOME/(LOSS) BEFORE TAX</b>		<b>-220 095</b>	<b>-534 390</b>
Tax		0	0
<b>NET INCOME/(LOSS) FOR THE YEAR</b>		<b>-220 095</b>	<b>-534 390</b>
<b>APPROPRIATIONS</b>			
Transfer to/from (-) other equity		-220 095	-534 390
<b>Total</b>		<b>-220 095</b>	<b>-534 390</b>

## Spirit Energy Danmark ApS

### Balance Sheet (DKK 1.000)

Assets	Notes	31.12.2017	31.12.2016
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Exploration and license acquisition cost	4	46 896	116 896
<b>Total intangible assets</b>		<b>46 896</b>	<b>116 896</b>
<b>Tangible assets</b>			
Oil and gas properties	4	777 886	419 230
<b>Total tangible assets</b>		<b>777 886</b>	<b>419 230</b>
<b>Total fixed assets</b>		<b>824 782</b>	<b>536 126</b>
<b>CURRENT ASSETS</b>			
Inventories		0	3 678
<b>Total inventories</b>		<b>0</b>	<b>3 678</b>
Current receivables from group companies		33 674	12 373
Other receivables		19 246	78 214
Prepayments		0	302
<b>Total receivables</b>		<b>52 920</b>	<b>90 889</b>
<b>Total current assets</b>		<b>52 920</b>	<b>94 567</b>
<b>TOTAL ASSETS</b>		<b>877 702</b>	<b>630 693</b>

## Spirit Energy Danmark ApS

### Balance Sheet (DKK 1 000)

Equity and liabilities	Notes	31.12.2017	31.12.2016
<b>EQUITY</b>			
Paid-in capital			
Share capital		3 074	2 571
Premium reserve		3 203 569	2 701 554
Uncovered loss		-2 908 719	-2 688 630
<b>Total equity</b>	<b>6</b>	<b>297 925</b>	<b>15 495</b>
<b>LIABILITIES</b>			
Loans from group companies		0	417 518
<b>Non-current liabilities other than provisions</b>		<b>0</b>	<b>417 518</b>
Other Provisions	5	524 930	163 955
<b>Provisions</b>		<b>524 930</b>	<b>163 955</b>
<b>Current liabilities</b>			
Current liabilities to group companies		2 065	4 104
Trade and other payables		52 782	29 620
<b>Total current liabilities</b>		<b>54 847</b>	<b>33 725</b>
<b>Total liabilities</b>		<b>579 777</b>	<b>615 198</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>877 702</b>	<b>630 693</b>



## Spirit Energy Danmark ApS

### Notes to the Financial Statements

#### Note 1 Going concern

The financial statements have been presented based on the assumption of continued operations, and the Board of Directors confirms that the prerequisites for this assumption are present. The basis for this evaluation by the Board of Directors is the Company's plans for investment, continued development of the Hejre field and long-term cash flow prognoses.

The Company is dependent on the availability of financing from its ultimate parent to fulfil its ongoing obligations as they fall due. Centrica plc(ultimate owner) has confirmed their intention of continued financial support, so that the entity will be able to meet their liabilities as they fall due. The support covers 17 months from 9.may 2018. Furthermore, it is confirmed that amounts owed to group companies will not be required to be repaid to Centrica in the foreseeable future, unless sufficient financial resources and facilities are available to the company.

The extended feasibility phase for Hejre and Solsort will continue through 2018 with an expected feasibility gate passing in Q3, 2018.

The existing Hejre PDO will be updated/amended to serve as basis for the continued development. Indicative timing for an updated PDO is mid-2019. However further deferral must be expected if it is decided to drill an appraisal/exploration well. First oil is expected in the period 2021-2024, depending on development concept and drilling of well.

Hejre expects to conclude the amendment to the Hejre Transportation Agreement with DOP during 2Q 2018. The same applies for the amendment to the Model Transportation Agreement.

The Solsort Unit licensees plan to pass feasibility gate for the Solsort development at the same time as Hejre. In the 30-year production permit granted to Solsort Unit in 2015, it was set as condition that Solsort Unit delivers a PDO before 29 June 2018. Solsort Unit has asked for a deferral of the PDO deadline with one year. Based on discussions with the Danish Energy Agency, it is expected that such extension will be granted.

#### Note 2 Financial income

(DKK 1 000)	2017	2016
Currency adjustments	3 352	6 444
Other financial income		3 506
<b>Total financial income</b>	<b>3 352</b>	<b>9 950</b>

#### Note 3 Financial expenses

(DKK 1 000)	2017	2016
Financial expenses from group enterprises	30 202	41 057
Other financial expenses	10 394	12 569
<b>Total financial expenses</b>	<b>40 596</b>	<b>53 626</b>

#### Note 4 Intangible and tangible fixed assets

(DKK 1 000)	Exploration expenditure	Fields under development	Total
Cost 01.01.	186 896	2 365 230	2 552 126
Additions <sup>(1)</sup>	-	431 758	431 758
Expensing of expl. wells previous years	-	-	-
<b>Cost 31.12.</b>	<b>186 896</b>	<b>2 796 988</b>	<b>2 983 884</b>
Accumulated DD&A 01.01. <sup>(2)</sup>	-	-	-
DD&A	-	-	-
<b>Accumulated DD&amp;A 31.12.</b>	<b>-</b>	<b>-</b>	<b>-</b>
Accumulated impairment 01.01.	70 000	1 946 000	2 016 000
Impairment <sup>(3)</sup>	70 000	73 103	143 103
<b>Accumulated impairment 31.12.</b>	<b>140 000</b>	<b>2 019 103</b>	<b>2 159 103</b>
<b>Net book value 31.12.</b>	<b>46 896</b>	<b>777 886</b>	<b>824 782</b>

Discounted future post-tax cash flows have been used to estimate future value for Fields under development and in production. A post-tax nominal discount rate of 8.5% have been used for for assets in production or with a firm development plan, and 15% for assets without a firm development plan (2016: 8.0% all assets). Inflation rate used for impairment calculations is 2.0% (2016: 1.5%).

<sup>(1)</sup> The additions under Fields under development are dominated by recognising the asset value related to Fredericia gas separation facility on the balance sheet, related to the commitment of the Hejre partners to reimburse Danish oil Pipe for its investment of the Fredericia gas separation facility. Danish Oil Pipe A/S, operator of Fredericia terminal, has been responsible for the construction of the facility and the Hejre license is obliged to pay the cost over the production period of the field. The current transportation agreement stipulates immediate repayment of the development cost of the facility unless Hejre is in production by March 2019 or the transporter agrees to deferral of such date based on producers request for deferral. This agreement is currently under negotiation to be amended and it is expected that the future prepayment profile will be a fixed payment schedule over 10 years starting in 2019. The corresponding liability is recognised as trade payables (short term) and capital payables (long term).

<sup>(2)</sup> Depreciation, depletion and amortization

<sup>(3)</sup> Impairment loss in 2017 is mainly a result of change in assumptions, a result of the fact that the Company by yearend was part of a Group with different standards and assumptions compared to previous year. Details of the impairment test methodologies and assumptions used are provided in note 1.



#### Note 5 Provisions

Other non-current liabilities (DKK 1 000)	31.12.2017	31.12.2016
Decommissioning costs <sup>(1)</sup>	-180 930	-163 955
Capital payables related to Fredericia Terminal <sup>(2)</sup>	-344 000	0
<b>Total other current liabilities</b>	<b>-524 930</b>	<b>-163 955</b>

<sup>(1)</sup> The company has booked a provision for future cost of shutdown and removal of oil and gas facilities related to the Hejre field. The provision is based in the latest available estimate from the operator

<sup>(2)</sup> Related to obligation to repay development cost of Fredericia terminal in Denmark to Danish Oil Pipe. Fredericia was built as part of the 5/98 Hejre Development, with Danish Oil Pipe as the operator of the terminal. See note 5 for further information

#### Note 6 Equity

(DKK 1 000)	Share capital <sup>(1)</sup>	Premium reserve	Other equity	Total equity
Equity 01.01.	2 571	2 701 554	-2 688 630	15 495
Registered capital increase	503	502 015	-	502 518
Loss for the year	-	-	-220 095	-220 095
<b>Equity 31.12.</b>	<b>3 074</b>	<b>3 203 569</b>	<b>-2 908 724</b>	<b>297 919</b>

<sup>(1)</sup> The share capital as of 31.12.2017 consists of 3 074 shares with a par value of DKK 1 000 per share. All shares are owned by Bayerngas Norge AS.

#### Note 7 Financial risk management

The Company' normal operating activities expose it to a variety of financial risks; market risk (including commodity price risk and currency risk), credit risk and liquidity risk. The Group maintains strict policies to manage its financial risks as approved by the Board of Directors.

It is Group policy that all transactions involving derivatives must be directly related to the underlying business activities of the Group. The Group does not use derivative financial instruments for speculative purposes. The Company has not entered into any derivatives.

#### Note 8 Contingent liabilities

Spirit Energy Danmark ApS, which holds participating interest in four licenses for production and exploration of oil and natural gas, is committed by approved work programmes for exploration and development of these licenses to make significant investments in coming years. Spirit Energy Danmark ApS' share of commitments related to exploration and development according to license agreements is estimated to MDKK 708 on 31.12.2017. See Board of Director report for information on Hejre progress.

#### Note 9 Related parties with controlling interest

Bayerngas Norge AS, based in Oslo, Norway, owns all the shares of the Company, and therefore has a controlling interest in the Company.

#### Note 10 Continued operations

The financial statements have been presented based on the assumption of continued operations, and the Board of Directors confirms that the prerequisites for this assumption are present. The basis for this evaluation by the Board of Directors is the Company's plans for investment, continued development of the Hejre field and long-term cash flow prognoses.

The Company is dependent on the availability of financing from its ultimate parent to fulfil its ongoing obligations as they fall due. Spirit Energy Ltd has expressed their intention of continued financial support.

#### Note 11 Events after the balance sheet date

No events after the balance sheet date.



## Accounting Policies

### Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied for these financial statements are consistent with those applied last year.

### Recognition and measurement

Assets are recognised in the balance sheet when it is probable because of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### Foreign currency translation

The Company's functional currency is DKK. Foreign currency transactions are recorded using exchange rates on the date of the transaction. Monetary items denominated in foreign currencies are converted to DKK using exchange rates at the balance sheet date. The resulting realized and unrealized currency gains and losses are included in the income statement.

## Income statement

### Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

### Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary write-downs of the relevant inventories.

#### Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognized in current assets.

#### Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

#### Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year. Calculated based on the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

#### Research and development (R&D)

R&D cost is expensed as incurred.

#### Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises.

#### Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises.

### Balance sheet

#### Intellectual property rights etc

Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities are capitalised initially as intangible assets. Other exploration costs, such as geological and geophysical exploration costs are expensed

Exploration expenses for the development of wells where there is evidence of hydrocarbon reservoir are recognized at cost as intangible asset. When a decision on field development is made, exploration cost is transferred to development projects in progress under intangible fixed assets.

Licenses and exploration cost is amortized based on production method from the time the field is put into operation, not exceeding 20 years.

For exploration licenses acquisition cost is impairment-tested based on a potential value assessment,

whereby estimated recoverable resources are assigned a value per barrel.

#### Property, plant and equipment

Maintenance and repairs are expensed as incurred. Significant costs incurred to increase production capacity or extend the useful economic life of production facilities are capitalized.

The Company follows the "Successful Efforts" method in accounting for exploration and development costs. All exploration costs, except for drilling costs of exploration wells, are charged to expense as incurred. Exploration wells are capitalized until we see that they have no commercial potential. Wells without commercial potential are expensed.

Fields in production is depleted based on the Units of Production (UoP) method. Goodwill is amortised over five years on a straight-line basis. Equipment and furniture are depreciated on a straight-line basis over the expected useful life per asset. Useful life is typically three to five years.

Fixtures and fittings are measured at cost less accumulated depreciation.

Depreciation of fixtures and fittings straight-line basis over the estimated useful life of 3-5 years.

Depreciation and impairment losses are recognized under production costs, exploration costs and administrative expenses. Gains and losses on disposal of fixed assets included in the income statement.

Tangible fixed assets are written down to the recoverable amount if this is lower than the carrying amount. An impairment test of each individual asset or group of assets is carried out if there is evidence of impairment.

#### Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

#### Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

#### Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

#### Other provisions

Other provisions comprise of abandonment obligations.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the

balance sheet date is measured at their discounted value.

#### **Operating leases**

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

#### **Other financial liabilities**

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal values.