Hess Denmark ApS

Østergade 26B, DK-1100 København K

Annual Report for 1 January - 31 December 2017

CVR No 73 58 91 18

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 30/5 2018

Gerhard G. Schoonman
Chairman

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Hess Denmark ApS for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 30 May 2018

Executive Board

Anders Nymann

Board of Directors

Gerhard G. Schoonman Chairman	Martin G. Edwards	Anders G. Nymann
Timothy B. Goodell	Evelyn MacLean	

Independent Auditor's Report

To the Shareholders of Hess Denmark ApS

Opinion
We have audited the financial statements of Hess Denmark A/S for the financial year 1 January – 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity, and notes, including 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 financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence:
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

Independent Auditor’s Report

Auditor’s responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, 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.

Independent Auditor’s Report

Statement on Management’s Review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Frederiksberg, 30 May 2018
Ernst & Young
Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Lissen Fagerlin Hammer
State Authorised Public Accountant
mne27747

Peter Andersen
State Authorised Public Accountant
mne34313

Company Information

The Company	Hess Denmark ApS Østergade 26B DK-1100 København K Telephone: + 45 33 30 12 33 Facsimile: + 45 33 30 12 99 Website: www.hess.com CVR No: 73 58 91 18 Financial period: 1 January - 31 December Financial year: 34th financial year Municipality of reg. office: Copenhagen
Board of Directors	Gerhard G. Schoonman, Chairman Martin G. Edwards Anders G. Nymann Timothy B. Goodell Evelyn MacLean
Executive Board	Anders Nymann
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 DK-2000 Frederiksberg

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2017	2016	2015	2014	2013
	USD '000	USD '000	USD '000	USD '000	USD '000
Key figures					
Profit/loss					
Revenue	191,014	182,456	219,651	428,234	346,058
Profit/loss before financial income and expenses	-163,098	-39,146	5,512	186,548	196,714
Net financials	-16,420	-10,766	-6,507	-12,019	-19,363
Net profit/loss for the year	-135,430	-142,690	-193,437	85,187	470,397
Balance sheet					
Balance sheet total	891,009	1,113,399	1,408,240	1,580,196	1,481,777
Equity	516,909	652,339	795,029	988,466	903,279
Investment in property, plant and equipment	17,839	37,293	235,675	232,469	211,711
Number of employees	106	117	120	116	116
Ratios					
Return on assets	-18.3%	-3.5%	0.4%	11.8%	13.3%
Solvency ratio	58.0%	58.6%	56.5%	62.6%	61.0%
Return on equity	-23.2%	-19.7%	-21.7%	9.0%	70.4%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The main activity of Hess Denmark ApS is to be the Operator of the South Arne field under license 7/89 with an equity share of 61.51572%.

Market overview and development in the year

The Hess Denmark ApS share of production from the South Arne field during 2017 averaged 10.5 thousand barrels of oil equivalent per day, a 20% decrease on 2016 production, which is a result of a combination of natural production decline and conversion of a production well to an injection well.

Operational focus throughout 2017 has been to optimize production from the existing well stock through well intervention and increased water injection.

The exploration work programs have been progressed as planned.

Hess Denmark ApS is not expected to fully utilize its deferred tax assets over the license period based on forecasted income. Hess Denmark ApS has a net deferred tax asset for Chapter 3A tax (hydrocarbon tax) and a net deferred tax liability for Chapter 2 tax (corporation tax). Chapter 2 and 3A taxes cannot be set-off against each other. Consequently, the deferred tax asset for Chapter 3A tax has been de-recognized, and that deferred tax liability for Chapter 2 continues to be recognized.

All taxes are regarding Danish activities and paid to Danish tax authorities.

The company's revenue for 2017 was USD 191,014 thousand with a net loss after tax of USD 135,430 thousand including an impairment loss of USD 192,000 thousand (we refer to note 1). The company balance sheet as at 31 December 2017 shows equity of USD 516,909 thousand after a proposed dividend of USD 0 thousand.

The company's oil is sold on the world market in USD. Associated gas is sold to Orsted Salg & Services A/S at the offshore delivery point.

Future development

In October 2017, the intention to sell Hess Denmark ApS was announced. The company will continue to focus on optimizing operational efficiency and costs. For the longer-term horizon, Hess Denmark ApS is working to mature other opportunities for future investment.

The past year and follow-up on development expectations from last year

2017 year-end results were lower than expectations. Sustained low price conditions continue to weigh on the Company's overall profitability.

Management's Review

Special risks - operating risks and financial risks

Market risks

As the company produces and sells crude oil it is exposed to fluctuating oil prices.

Foreign exchange risks

The operating costs of the company are primarily in DKK and are therefore exposed to currency Exchange rate fluctuations.

Environment and safety

Hess Denmark ApS aims to be compliant at all times with all Danish EHS Regulations, Corporate EHS Standards and Industry Guidelines and Recommended Practices. The company strives to ensure its operations and activities are carried out in a safe and responsible manner with no harm to people or damage to the environment. The company's Occupational Health and Safety Management System is OHSAS 18001 certified and the Environmental Management system is ISO14001 certified.

Intellectual capital resources

Hess is committed to creating a work environment that encourages continual learning and development for all employees. We want a diverse and inclusive workforce where everyone grows, builds capabilities, experiences new challenges and sharpens skills. Development at Hess is ideally a mix of on-the-job experiences, coaching and mentoring, and formal education.

Statement of corporate social responsibility

Regarding the Danish Financial Statements Act § 99 a, Hess Denmark ApS does not have its own policies for Corporate Social Responsibility, including policies on human rights, environment and climate.

Hess Corporation has chosen to make policies at corporate level and not for the separate local entities. For more information about our ultimate owner, Hess Corporation's work on sustainability, see the website of Hess Corporation: http://www.hess.com/sustainability

Management's Review

Statement on gender composition

Board of Directors:
Hess wants to encourage diversity and create equal opportunities for all. Hess Denmark ApS has prepared a policy to ensure an increased proportion of females on the Board of Directors. Hess Denmark continues to maintain a female member on the board of directors. Hess Denmark ApS will target that no later than by 2020, at least two of the members elected by the general assembly to the board of directors should be female.

Management Team:
Gender diversity is still a key aspiration for our operation in Denmark. In the pursuit of recruitment and talent development, professional and managerial competences are, however, always the determining factors in connection with hiring and promotion. Hess Denmark continues to maintain a female member in the Management Team.

For more information about our parent company, Hess Corporation's position and progress on diversity, read more about the effort within our annually published Corporate Sustainability Report at: http://www.hess.com/sustainability

Uncertainty relating to recognition and measurement

Hess Denmark ApS has performed an annual asset impairment test and sensitivity analysis. We refer to note 1.

Subsequent events

There are no material events post balance sheet date.

Income Statement 1 January - 31 December

	Note	2017	2016
		USD '000	USD '000
Revenue		**191,014**	**182,456**
Cost of sales	2,16	-351,183	-218,336
Gross profit/loss		**-160,169**	**-35,880**
Administrative expenses		-2,937	-3,266
Operating profit/loss		**-163,106**	**-39,146**
Other operating income		8	0
Profit/loss before financial income and expenses		**-163,098**	**-39,146**
Financial income	3	869	116
Financial expenses	4	-17,289	-10,882
Profit/loss before tax		**-179,518**	**-49,912**
Tax on profit/loss for the year	5	44,088	-92,778
Net profit/loss for the year		**-135,430**	**-142,690**

Balance Sheet 31 December

Assets

	Note	2017 USD '000	2016 USD '000
Plant and machinery		740,521	1,004,189
Plant and machinery under construction		24,914	22,357
Property, plant and equipment	7	**765,435**	**1,026,546**
Fixed assets		**765,435**	**1,026,546**
Inventories	8	**1,236**	**4,560**
Trade receivables		1,736	28,202
Receivables from group enterprises		109,857	41,255
Other receivables		8,318	6,084
Deferred tax asset	11	0	0
Prepayments	9	1,586	1,597
Receivables		**121,497**	**77,138**
Cash at bank and in hand		**2,841**	**5,155**
Currents assets		**125,574**	**86,853**
Assets		**891,009**	**1,113,399**

Balance Sheet 31 December

Liabilities and equity

	Note	2017	2016
		USD '000	USD '000
Share capital		2,417	2,109
Retained earnings		514,492	650,230
Equity	10	**516,909**	**652,339**
Provision for deferred tax	11	24,056	68,839
Other provisions	12	73,484	71,862
Provisions		**97,540**	**140,701**
Payables to group enterprises		252,150	252,032
Long-term debt	13	**252,150**	**252,032**
Trade payables		7,659	5,347
Payables to group enterprises	13	1,781	51,713
Corporation tax		695	0
Other payables		14,275	11,267
Short-term debt		**24,410**	**68,327**
Debt		**276,560**	**320,359**
Liabilities and equity		**891,009**	**1,113,399**

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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	USD '000	USD '000	USD '000
2017			
Equity at 1 January	2,109	650,230	652,339
Exchange adjustments	308	-308	0
Net profit/loss for the year	0	-135,430	-135,430
Equity at 31 December	**2,417**	**514,492**	**516,909**
2016			
Equity at 1 January	2,196	792,833	795,029
Exchange adjustments	-87	87	0
Net profit/loss for the year	0	-142,690	-142,690
Equity at 31 December	**2,109**	**650,230**	**652,339**

Notes to the Financial Statements

1 Uncertainty relating to recognition and measurement

Hess Denmark ApS has performed an annual asset impairment test and various sensitivity analysis. Net assets related to the oil and gas activities are tested for impairment if there is any indication of impairment. For assets with a limited lifetime such as oil and gas fields, cash flows are calculated based on forecasts for the entire lifetime of the asset. The determination of the recoverable amount for assets is based on a number of assumptions where estimates are made that are material to the determination. Such assumptions include future market conditions, market prices of oil and gas, estimated oil and gas reserves, weighted average cost of capital (WACC), exchange rates, inflation etc.

The recoverable amounts of the impaired oil and gas assets are measured on the basis of market-based forward prices for oil and gas up until 2020. The prices applied in the period hereafter are based on management's best estimate of long-term oil and gas prices. The recoverable amounts, determined on the basis of value in use, are based on the cash flow forecasts until end of the license.

In 2017, the annual asset impairment test resulted in an impairment of tangible assets of USD 192 million, cf. note 8 and a USD 185 million of de-recognition to deferred tax assets for hydrocarbon taxes, cf. note 5. The impairment loss is primarily attributable to lower long-term oil prices in the impairment model.

Key assumptions and sensitivity:

Long-term oil prices and WACC are the key assumptions and value drivers in the impairment model. A change of USD 10 per barrel in the long-term oil price will change the recoverable amount by USD +/- 228 million and a change in the WACC of 0.5% points will change the recoverable amount by USD +/- 20 million.

Asset retirement obligation:

The asset retirement obligation is recognised as the present value of the estimated expected obligation regarding to dismantling of the platforms and at the end of the license period in 2047.

Management have based the estimate on input from specialist, available market data and industry/historical knowledge including anticipated cost savings resulting from anticipated advances in technology in the future.

The measurement of the asset retirement obligation is subject to uncertainty due to a number of assumptions, including the scope of work required, timing, regulations, costs, and effect of cost savings resulting from anticipated advances in technology.

Management believes the assumptions applied are reasonable and realistic.

Notes to the Financial Statements

		2017	2016
		USD '000	USD '000
2	**Cost of sales**		
	Direct production costs	78,680	82,556
	Depreciation	80,503	129,439
	Depreciation asset retirement	0	6,341
	Impairment	192,000	0
		351,183	**218,336**
3	**Financial income**		
	Interest received from group enterprises	565	110
	Other financial income	304	6
		869	**116**
4	**Financial expenses**		
	Interest paid to group enterprises	9,389	8,109
	Other financial expenses	7,900	2,773
		17,289	**10,882**
5	**Tax on profit/loss for the year**		
	Current tax for the year	695	-59
	Deferred tax for the year	-44,783	92,837
		-44,088	**92,778**
	Which breaks down as follows:		
	Tax on profit/loss for the year	-44,783	-33,758
	Adjustment of deferred hydrocarbon tax	-184,948	-51,140
	De-recognition of hydrocarbon tax asset	184,948	177,676
	Foreign current income tax expense and tax on exchange	695	0
		-44,088	**92,778**

Notes to the Financial Statements

6 Distribution of profit

	2017 USD '000	2016 USD '000
Retained earnings	-135,430	-142,690
	-135,430	**-142,690**

7 Property, plant and equipment

	Plant and machinery USD '000	Plant and machinery under construction USD '000
Cost at 1 January	2,266,856	22,357
Additions for the year	13,820	4,019
Disposals for the year	-4,985	0
Transfers for the year	0	-1,462
Cost at 31 December	2,275,691	24,914
Impairment losses and depreciation at 1 January	1,262,667	0
Impairment losses for the year	192,000	0
Depreciation for the year	80,503	0
Impairment losses and depreciation at 31 December	1,535,170	0
Carrying amount at 31 December	**740,521**	**24,914**
Interest expenses recognised as part of cost	13,395	0

8 Inventories

	2017 USD '000	2016 USD '000
Raw materials and consumables	1,236	4,560
	1,236	**4,560**

9 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance, subscriptions etc.

Notes to the Financial Statements

10 Equity

The share capital consists of 15,001 shares of a nominal value of DKK 1,000. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

11 Deferred tax asset

	2017	2016
	USD '000	USD '000
Deferred tax asset at 1 January	-68,839	-23,998
Amounts recognised in the income statement for the year	-105,377	-84,839
Write-down to assessed value	150,160	177,676
Deferred tax at 31 December	**-24,056**	**-68,839**
Property, plant and equipment (chapter 2 taxes)	37,927	79,773
Other (chapter 2 taxes)	-4,225	-2,441
Tax loss carry-forward (chapter 2 taxes)	-9,646	-8,493
Property, plant and equipment (chapter 3A taxes)	34,443	156,048
Provisions (chapter 3A taxes)	-38,212	-37,368
Deferred chapter 2 taxes (chapter 3A taxes)	-12,509	-35,796
Other (chapter 3A taxes)	-8,786	-5,080
Tax loss carry-forward (chapter 3A taxes)	-525,563	-443,483
Transferred to deferred tax asset	550,627	365,679
Provision for deferred tax	**24,056**	**68,839**

Deferred tax asset

	2017	2016
Calculated tax asset	550,627	365,679
Write-down to assessed value	-550,627	-365,679
Carrying amount	**0**	**0**

Deferred tax assets related hydrocarbon taxes not capitalised amounts to USD 551 million as of 31 December 2017.

Notes to the Financial Statements

12 Other provisions

	2017	2016
	USD '000	USD '000
Asset retirement obligation		
Asset retirement obligation January 1	30,842	120,312
Revision to cost	-5,022	-89,470
Asset retirement obligation December 31	25,820	30,842
Accumulated Accretion January 1	41,020	38,490
Accretion for the year	3,100	6,492
Revaluation for the year	3,544	-3,962
Accumulated Accretion December 31	47,664	41,020
	73,484	**71,862**

Asset retirement obligation is expected to be paid at the end of the license year.

13 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Payables to group enterprises

After 5 years	0	0
Between 1 and 5 years	252,150	252,032
Long-term part	252,150	252,032
Other short-term debt to group enterprises	1,781	51,713
	253,931	**303,745**

Notes to the Financial Statements

14 Contingent assets, liabilities and other financial obligations

Contingent liabilities

A financial commitment exists in relation to licence 6/16 granted by the Danish Ministry of the Environment and Energy for exploration and extraction of hydrocarbons. By April 2020, Hess Denmark ApS need to drill a well. The gross cost of the well is estimated at USD 20 million.

The Company has entered into lease contracts with a period of irrevocability of up to 12 month. The rent in the period of irrevocability amount to kUSD 384 at 31 December 2017.

The Company is from time to time involved in legal proceedings. Management believes that these legal proceedings will not affect the financial position of the Company.

15 Related parties

	Basis
Controlling interest	
Hess Corporation, 1185 Avenues of the Americas, New York, USA	Ultimate Parent Company

Transactions

Related party transactions for 2017:

Expense for services: kUSD 3,137
Interest income: kUSD 565
Interest expense: kUSD 9,389
Loans payable: kUSD 253,931
Loans receivable: kUSD 109,857

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

Name	Place of registered office
Hess Corporation	

Notes to the Financial Statements

15 Related parties (continued)

The Group Annual Report of Hess Corporation may be obtained at the following address:

Hess Corporation
1185 Avenue of the Americas
New York, USA

16 Staff

	2017 USD '000	2016 USD '000
Wages and Salaries	19,130	28,580
Pensions	1,285	1,309
Other social security expenses	115	117
	20,530	**30,006**
Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	20,530	30,006
	20,530	**30,006**
Average number of employees	**106**	**117**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

17 Fee to auditors appointed at the general meeting

Audit fee to Ernst & Young	41	52
Non-audit services	0	0
	41	**52**

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of Hess Denmark ApS for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Financial Statements for 2017 are presented in USD '000.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Hess Corporation, the Company has not prepared a cash flow statement.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies

The used USD/DKK exchange rate at 31 December 2017 is 620.77 (2016: 711.16). US Dollar is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction.

Notes to the Financial Statements

18 Accounting Policies (continued)

Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Segment information on revenue

Information on segments are not disclosed as the Company only operates within one segment.

Income Statement

Revenue

Revenue from the sale of oil and gas is recognised in the income statement when the sale is considered effected based on the following criteria:

- delivery has been made before year end;
- a binding sales agreement has been made;
- the sales price has been determined; and
- payment has been received or may with reasonable certainty be expected to be received.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Notes to the Financial Statements

18 Accounting Policies (continued)

Exploration and development cost

Exploration and development costs are accounted for under the successful efforts method.

Costs of undeveloped oil and gas licenses, including lease bonuses are capitalised.

Exploration expenses, including geological and geophysical expenses and exploratory dry hol costs, are expensed as incurred.

Expenses for development of wells and costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalised.

The costs of exploratory wells that find oil and gas reserves are capitalised pending determination of whether proved reserves have been found. In an area requiring major capital expenditure before production can begin, an exploration well is carried as an asset if sufficient reserves are discovered to justify its completion as a production well, and sufficient progress is being made in assessing the reserves and the economic or operational viability of the project. Indicators of sufficient progress in assessing the reserves and the economic and operating viability of a project include commitment of project personnel, active negotiations for sales contracts with customers, negotiations with governments, operators and contractors, firm plans for additional drilling and other factors.

The Company calculates depletion expenses for acquisition costs of proved properties using the units of production method over proved oil and gas reserves. Depreciation and depletion expenses for oil and gas production equipment and wells are calculated using the units of production method over proved developed oil and gas reserves.

Financial income and expenses

Financial income and expenses comprise interest as well as realised and unrealised exchange adjustments.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is engaged in oil and gas extraction (hydrocarbons) and is subject to the hydrocarbon tax legislation in Denmark. Hydrocarbon taxes are calculated on the basis of taxable hydrocarbon income and include taxes calculated applying Denmark's ordinary income tax rate as well as tax calculated applying increased tax rates. Hydrocarbon taxes are recognised under tax on profit (loss) for the year.

Notes to the Financial Statements

18 Accounting Policies (continued)

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the capitalized exploration and development costs including dismantlement costs as described above in the section "Exploration and development costs".

Depreciation based on cost using the successful efforts method. Accordingly, depreciations are recognised over production.

Impairment of fixed assets

The carrying amounts of plant and machinery are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Inventories

Crude oil inventories are valuated at the lower of average cost or market value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Notes to the Financial Statements

18 Accounting Policies (continued)

Provisions

Asset retirement obligations

The corporation recognises a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. The Corporation capitalises the associated asset retirement costs as part of the carrying amount of the long-lived assets.

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Notes to the Financial Statements

18 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$