Hess Denmark ApS

Østergade 26B, DK-1100 København K

Annual Report for 1 January - 31 December 2015

CVR No 73 58 91 18

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 19/5 2016

Brian Truelove
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 2015.

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 2015 of the Company and of the results of the Company operations for 2015.

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, 19 May 2016

Executive Board

Anders Nymann

Board of Directors

Brian D. Truelove Chairman	Timothy B. Goodell	Anders Nymann
Zhanna Golodryga		

Independent Auditor’s Report on the Financial Statements

To the Shareholders of Hess Denmark ApS

Report on the Financial Statements

We have audited the Financial Statements of Hess Denmark ApS for the financial year 1 January - 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity, notes and accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management’s Responsibility 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the results of the Company operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Independent Auditor’s Report on the Financial Statements

Statement on Management’s Review

We have read Management’s Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management’s Review is in accordance with the Financial Statements.

Frederiksberg, 19 May 2016
Ernst & Young
Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Lissen Fagerlin Hammer
State Authorised Public Accountant

Peter Andersen
State Authorised Public Accountant

Company Information

The Company	Hess Denmark ApS Østergade 26B DK-1100 København K Telephone: + 45 +45 33 30 12 33 Facsimile: + 45 +45 33 30 12 99 Website: www.hess.com CVR No: 73 58 91 18 Financial period: 1 January - 31 December Financial year: 32nd financial year Municipality of reg. office: Copenhagen
Board of Directors	Brian D. Truelove, Chairman Timothy B. Goodell Anders Nymann Zhanna Golodryga
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:

	2015	2014	2013	2012	2011
	USD '000	USD '000	USD '000	USD '000	USD '000
Key figures					
Profit/loss					
Revenue	219.651	428.234	346.058	347.723	431.601
Profit/loss before financial income and expenses	5.512	186.548	196.714	216.650	288.684
Net financials	-6.507	-12.019	-19.363	-17.508	-11.948
Net profit/loss for the year	-193.437	85.187	470.397	144.794	205.773
Balance sheet					
Balance sheet total	1.408.240	1.580.196	1.481.777	954.172	775.648
Equity	795.029	988.466	903.279	432.882	288.088
Investment in property, plant and equipment	235.675	232.469	211.711	182.951	247.294
Number of employees	120	116	116	112	96
Ratios					
Return on assets	0,4%	11,8%	13,3%	22,7%	37,2%
Solvency ratio	56,5%	62,6%	61,0%	45,4%	37,1%
Return on equity	-21,7%	9,0%	70,4%	40,2%	127,6%

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

Main activity

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 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%. The Hess Denmark ApS share of production from the South Arne field during 2015 averaged 14.1 thousand barrels of oil equivalent per day, a 9% increase over 2014 production.

The Phase 3 development project, which was sanctioned November 2010, progressed as planned in 2015. Four new wells were brought on-line on Wellhead Platform East (WHP-E), bringing the total on-line wells to nine out of the 11 well program. Well SAE-01 was delayed due to stimulation issues but was brought online in April. Wells SAE-02, SAE-03 and SAE-04 were all brought on-line ahead of schedule in May, July and October, respectively.

The ocean bottom seismic (OBS) project, which began in 2014, with the data capture phase is progressing as planned. During 2015, the data processing phase commenced and is expected to be completed in 2016. The result of OBS will help to illuminate the area of the South Arne field masked by the shallower gas cloud that obscures conventional streamer seismic signals reaching the reservoir. This portion of the South Arne field has the largest in-place volumes with significant upside potential to be understood through the capture of quality seismic data below the gas cloud region.

Furthermore, the unitization of the Solsort licenses was completed in 2015. The Solsort discovery (licenses 4/98 and 3/09) consists of two lobes, an East lobe discovered in 2010 and a West lobe in 2013. About one-third of the West lobe crosses into the South Arne 7/89 license area. The unit agreement and associated joint operating agreement (JOA) was completed on May 1, 2015, providing HessDenmark ApS with a unit interest of 4.79823%. Pre-development planning is currently underway, led by DONG Energy, as operator.

As a consequence of the low oil price, Hess Denmark ApS is not expected to fully utilize its deferred tax asset over the license period based on forecasted income. Accordingly, part of the booked tax asset has been de-recognized which has affected the year's tax charges materially resulting in a tax expense in the profit and loss account.

The company's revenue for 2015 was USD 219,651 thousand with a net loss after tax of USD 193,437 thousand. The company balance sheet as at 31 December 2015 shows equity of USD 795,029 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 DONG Energy A/S at the offshore delivery point.

Management's Review

Future development

Hess Denmark ApS remains committed to the Phase 3 development program and we expect to bring on-stream the last two of the 11 eleven wells program in the first half of 2016. In the current low price environment, the company will focus on improving costs in order to better manage sustainable cash flow. For the longer-term horizon, Hess Denmark ApS is working to mature other opportunities for future investment.

Hess Denmark ApS, as operator, is seeking to extend the end date of the 07/89 license period from 2027 to 2047. Based on the current interaction with the Danish Energy Agency, the company is encouraged that a positive decision around license extension will made by the Danish government later in 2016.

On April 6, 2016, Hess Denmark ApS was awarded two new explorations related to the 7th Bid Round:

- License 6/16 (Jill / Danielle) - Hess operated
- License 16/16 (Nattergal) - DONG operated

The company is in the process of collaborating with partners to fulfill the explorations commitments.

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

2015 year-end results were generally lower than expectations due to the rapid decline in market conditions.

Looking ahead into 2016, the company expects pre-tax results to be profitable due to lower capital investment as we finish the last two wells of the 11 wells program in mid-2016 and shift to a planning phase to mature future opportunities in the pipeline.

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 exchangerate fluctuations.

Management's Review

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 is 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.

Corporate Social Responsibility

Regarding the Danish Financial Statements Act § 99 a, the Company has no own policies for Corporate Social Responsibility, including policies on human rights, environment and climate.

For more information about our ultimate owner, Hess Corporation's work on sustainability, see the Website of Hess Corporation: http://www.hess.com/sustainability

Diversity

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 and other management positions:

- No later than by 2015, at least 25% of the management team positions must be filled by females.
- No later than by 2017, at least 1 of the members elected by the general assembly to the board of directors should be female.

At the end of 2015, 33% of the management team is filled by females and one female member has been added to the Board of Directors in 2015. Thus, Hess Denmark ApS is proud to have met the targets.

Hess Denmark ApS has a policy for females in management. The share of females in management is increased through efforts being made within recruitment and talent development. The professional and managerial competences are, however, always the determining factors in connection with hiring and promotion.

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.

Uncertainty relating to recognition and measurement

In light of the current low price environment, Hess Denmark ApS has performed various sensitivity analysis for the asset impairment test. We refer to note 1.

Management’s Review

Subsequent events

There are no material events post balance sheet date.

Income Statement 1 January - 31 December

	Note	2015	2014
		USD '000	USD '000
Revenue	2	**219.651**	**428.234**
Cost of sales	3	-209.682	-235.132
Gross profit/loss		**9.969**	**193.102**
Administrative expenses		-4.457	-6.554
Profit/loss before financial income and expenses		**5.512**	**186.548**
Financial income	4	1.779	317
Financial expenses	5	-8.286	-12.336
Profit/loss before tax		**-995**	**174.529**
Tax on profit/loss for the year	6	-192.442	-89.342
Net profit/loss for the year		**-193.437**	**85.187**

Distribution of profit

Proposed distribution of profit

Retained earnings	-193.437	85.187
	-193.437	**85.187**

Balance Sheet 31 December

Assets

	Note	2015	2014
		USD '000	USD '000
Plant and machinery		1.043.644	805.400
Plant and machinery under construction		169.534	335.446
Property, plant and equipment	7	**1.213.178**	**1.140.846**
Fixed assets		**1.213.178**	**1.140.846**
Inventories	8	**8.609**	**4.012**
Trade receivables		3.876	35.403
Receivables from group enterprises		146	40.129
Other receivables		16.357	21.439
Deferred tax asset	11	126.536	310.706
Corporation tax		0	4.306
Prepayments	9	2.536	3.303
Receivables		**149.451**	**415.286**
Cash at bank and in hand		**37.002**	**20.052**
Currents assets		**195.062**	**439.350**
Assets		**1.408.240**	**1.580.196**

Balance Sheet 31 December

Liabilities and equity

	Note	2015	2014
		USD '000	USD '000
Share capital		2.196	2.451
Retained earnings		792.833	986.015
Equity	10	**795.029**	**988.466**
Provision for deferred tax	11	102.538	102.470
Other provisions	12	158.802	147.411
Provisions		**261.340**	**249.881**
Payables to group enterprises		252.022	252.024
Long-term debt	13	**252.022**	**252.024**
Credit institutions		11.725	8.397
Trade payables		10.690	28.444
Payables to group enterprises	13	33.608	7.943
Corporation tax		6.637	0
Other payables		37.189	45.041
Short-term debt		**99.849**	**89.825**
Debt		**351.871**	**341.849**
Liabilities and equity		**1.408.240**	**1.580.196**
Uncertainty relating to recognition and measurement	1		
Contingent assets, liabilities and other financial obligations	14		
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	USD '000	USD '000	USD '000
2015			
Equity at 1 January	2.451	986.015	988.466
Exchange adjustments	-255	255	0
Net profit/loss for the year	0	-193.437	-193.437
Equity at 31 December	**2.196**	**792.833**	**795.029**
2014			
Equity at 1 January	2.764	900.515	903.279
Exchange adjustments	-313	313	0
Net profit/loss for the year	0	85.187	85.187
Equity at 31 December	**2.451**	**986.015**	**988.466**

Notes to the Financial Statements

1 Uncertainty relating to recognition and measurement

In light of the current low price environment, Hess Denmark ApS has performed various sensitivity analysis for the asset impairment test. 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 etc. The market prices applied are based on available forward prices and management's best estimate of long-term prices for the remainder of the period. In 2015, lower oil and gas prices resulted in USD 188 million of de-recognition to deferred tax assets for hydrocarbon taxes and to asset impairment.

The impairment losses are attributable to the continued fall in oil and gas prices, resulting in lower long-term price assumptions.

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 2018. The prices applied in the period hereafter are based on management's best estimate. The recoverable amounts, determined on the basis of value in use, are based on the cash flow forecasts until the expected end of the license. Management finds the assumptions applied for reasonable and realistic.

	2015	2014
	USD '000	USD '000

2 Revenue

Geographical segments		
Oil sales	200.660	408.446
Gas sales	18.991	19.788
	219.651	**428.234**

3 Cost of sales

Direct production costs	73.463	99.423
Depreciation	127.013	121.950
Depreciation asset retirement	9.206	13.759
	209.682	**235.132**

Notes to the Financial Statements

		2015	2014
		USD '000	USD '000
4	**Financial income**		
	Other financial income	1.779	317
		1.779	**317**
5	**Financial expenses**		
	Interest paid to group enterprises	7.555	10.655
	Other financial expenses	731	1.681
		8.286	**12.336**
6	**Tax on profit/loss for the year**		
	Current tax for the year	8.204	41.274
	Deferred tax for the year	184.238	48.068
		192.442	**89.342**
	Which breaks down as follows:		
	Tax on profit/loss for the year	8.272	59.238
	Adjustment of deferred hydrocarbon tax	-3.833	30.104
	De-recognition of hydrocarbon tax asset	188.003	0
		192.442	**89.342**

Notes to the Financial Statements

7 Property, plant and equipment

	Plant and machinery	Plant and machinery under construction
	USD '000	USD '000
Cost at 1 January	1.796.068	335.446
Additions for the year	374.463	169.534
Disposals for the year	0	-335.446
Cost at 31 December	2.170.531	169.534
Impairment losses and depreciation at 1 January	990.668	0
Depreciation for the year	136.219	0
Impairment losses and depreciation at 31 December	1.126.887	0
Carrying amount at 31 December	**1.043.644**	**169.534**

Capitalized interest included in Plant and machinery amount to kUSD 1.345 (2014: kUSD 1.553)

8 Inventories

	2015	2014
	USD '000	USD '000
Raw materials and consumables	8.609	4.012
	8.609	**4.012**

9 Prepayments

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

10 Equity

The share capital consists of 15.001 shares of a nominal value of USD '000 1.000. No shares carry any special rights.

In 2011, the share capital was increased by DKK 1k. Besides this, there have been no changes to the share capital in the last five years.

	2015 USD '000	2014 USD '000
11 Provision for deferred tax		
Provisions for deferred tax at 1 January	-208.236	-256.304
Provisions for the year	-3.765	48.068
Transferred to deferred tax asset	314.539	310.706
	102.538	**102.470**
Deferred tax asset		
Calculated tax asset	314.539	310.706
De-recognition of hydrocarbon tax asset	-188.003	0
Carrying amount	**126.536**	**310.706**

Deferred tax assets related hydrocarbon taxes not capitalised amounts to USD 188 million as of 31 December 2015.

Notes to the Financial Statements

12 Other provisions

	2015	2014
	USD '000	USD '000
Asset retirement obligation		
Asset retirement obligation January 1	109.150	103.927
Revision to cost	11.162	5.223
Asset retirement obligation December 31	120.312	109.150
Accumulated Accretion January 1	38.261	38.149
Accretion for the year	7.914	7.948
Revaluation for the year	-7.685	-7.836
Accumulated Accretion December 31	38.490	38.261
	158.802	**147.411**

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

	2015	2014
After 5 years	0	0
Between 1 and 5 years	252.022	252.024
Long-term part	252.022	252.024
Other short-term debt to group enterprises	33.608	7.943
	285.630	**259.967**

Notes to the Financial Statements

14 Contingent assets, liabilities and other financial obligations

Contingent liabilities

No financial exploration obligations rest upon the Company under the licenses granted by the Danish Ministry of the Environment and Energy for exploration and extraction of hydrocarbons.

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 13.185 at 31 December 2015.

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 Staff

	2015	2014
	USD '000	USD '000
Wages and Salaries	26.097	29.223
Pensions	1.162	1.371
Other social security expenses	124	136
	27.383	**30.730**
Average number of employees	**120**	**116**

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

Notes to the Financial Statements

16 Related parties and ownership

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

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company Hess Corporation.

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

Hess Corporation
1185 Avenue of the Americas
New York, USA

17 Fee to auditors appointed at the general meeting

	2015 USD '000	2014 USD '000
Audit fee to Ernst & Young	45	45
Non-audit services	0	0
	45	**45**

Accounting Policies

Basis of Preparation

The Annual Report of Hess Denmark ApS for 2015 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. A reclassification between "Plant and machinery" and "Plant and machinery under construction" of USD 287 million has been made compared to last year. This reclassification do not effect result or equity.

Financial Statements for 2015 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.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

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.

Accounting Policies

The used USD/DKK exchange rate at 31 December 2015 is 683.00 (2014: 612.14). US Dollar is used as the measurement currency. All other currencies are regarded as foreign currencies.

Basis of merger

As of 1 January 2014, Hess Denmark ApS, has merged with the 100% owned subsidiary, Hess Energi ApS.

Following the merger, items of a uniform nature are combined. Elimination is made of intercompanyincome and expenses, shareholdings, dividends and accounts.

Comparative figures have been adjusted.

The merger is recognized using the pooling method. Assets and liabilities of the merged companies are combined according to their book value on the acquisition date.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses 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 transaction date rates are recognised in financial income and expenses in the income statement.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Accounting Policies

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.

Accounting Policies

Exploration and development costs

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 begind, an exploration well is carried as an asset if sufficient reserves are discovered to justify its completion as a production well, and additional exploration drilling is underway or firmly planned. The Company does not capitalise the cost of other exploratory wells for more than one year unless proved reserves are found.

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 the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax recognised in the income statement is classified as tax on ordinary activities and tax on extraordinary items, respectively.

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 are 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.

Accounting Policies

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.

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciations.

Inventories

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

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

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.

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.

Accounting Policies

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, including the tax base of tax loss carry-forwards, 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

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

Financial Highlights

Explanation of financial ratios

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