NORECO OIL DENMARK A/S

ANNUAL REPORT 2021

Adopted by the Annual General Meeting on
6 May 2022

Chairman of the meeting
Erik Borg

NORECO OIL DENMARK A/S
Lyngbyvej 2, 2100 Copenhagen
CVR-nr. 78 34 27 14

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Noreco Oil Denmark A/S for the financial year 1 January – 31 December 2021.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 6 May 2022

Executive Board

Erik Borg

Board of Directors

Euan Campbell Shirlaw Chairman	Erik Borg

Urs Michael Mohn

Independent auditor's report

To the shareholders of Noreco Oil Denmark A/S

Opinion

We have audited the financial statements of Noreco Oil Denmark A/S for the financial year 1 January – 31 December 2021 comprising 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 Company's assets, liabilities and financial position at 31 December 2021 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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

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, that 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.

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 the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 company 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 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 Company to cease to continue as a going concern.

— evaluate the overall presentation, structure and contents of the financial statements, including the 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.

Statement on the 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 the work we have performed, 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.

Copenhagen, 6 May 2022
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Jon Beck	Christian Møllegaard Larsen
State Authorised	State Authorised
Public Accountant	Public Accountant
mne32169	mne46614

Company Information

The Company	Noreco Oil Denmark A/S Lyngbyvej 2 DK - 2100 Copenhagen CVR-nr: 78 34 27 14 Financial year: 1 January – 31 December Registered municipality: Copenhagen
Board of Directors	Euan Campbell Shirlaw, Chairman Urs Michael Mohn Erik Borg
Executive Board	Erik Borg
External Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK - 2100 København Ø CVR no. 25 57 81 98

Financial Highlights

	2021	2020	2019	2018	2017	2016
Income Statement (USD million)						
Revenue	558.4	480.2	280.4	0.4	0.6	0.7
Profit (loss) before financial items	142.9	70.4	25.2	(15.3)	(46.7)	(0.7)
Net financial items	(102.7)	(40.7)	(0.4)	(7.3)	(9.7)	(10.8)
Profit (loss) for the year	17.6	65.0	364.5	(21.1)	(55.6)	(2.5)
Balance sheet (USD million)						
Total Assets	3,615.6	2,609.7	2,395.3	16.0	29.0	71.7
Shareholders' Equity	317.9	382.1	271.9	(61.7)	(172.6)	(117.1)
Investments (USD million)						
Production licence	0.0	0.0	156.0	0.0	0.0	0.0
Production facilities	228.2	235.1	694.3	0.0	0.0	0.0
Financial ratios						
Average oil price (USD/bbl)	58	57	64	72	48	52
Operating margin	26%	15%	9%	-38%	-78%	94%
Return on invested capital	7%	5%	4%	46%	1666%	-4%
Return on Equity	5%	20%	347%	18%	38%	2%
Equity ratio	9%	15%	11%	-385%	-596%	-163%
Average number of employees	16	16	9	1	2	3

Average oil price is calculated as total invoiced oil sales adjusted for settlement for hedges in place, divided by total lifted volume.

The key figures are calculated as shown below:

Operating margin $\dfrac{\text{Profit (loss) before financial items x 100}}{\text{Revenue}}$

Return on invested capital $\dfrac{\text{Profit (loss) before financial items x 100}}{\text{Average invested capital*}}$

Return on Equity $\dfrac{\text{Profit (loss) for the year x 100}}{\text{Average equity}}$

Equity ratio $\dfrac{\text{Equity, year-end x 100}}{\text{Total liabilites, year-end}}$

*) Average invested capital is calculated as total liabilities less non interest bearing debts, and Cash in hand and at Bank

Management’s review

In July 2019, Noreco completed the acquisition of Shell´s Danish upstream assets through the acquisition via a share purchase of Shell Olie- og Gasudvinding Danmark B.V. (“SOGU”), which included ownership of the subsidiary Shell Olie- og Gasudvinding Danmark Pipelines ApS (“SOGUP”), and simultaneous transfer of the interest in the DUC from SOGU to Noreco Oil Danmark A/S. As a result of the Transaction, Noreco became the second largest oil and gas producer in Denmark and a considerable E&P company.

Noreco holds a 36.8% non-operated interest in the Danish Underground Consortium (“DUC”) with assets that comprise four hubs with 11 producing fields; Halfdan, Tyra, Gorm and Dan. DUC is a joint venture between Total (43.2%), Noreco (36.8%) and Nordsøfonden (20.0%). DUC is operated by Total which has extensive offshore experience in the region and worldwide.

In 2021, the company participated in the following licences/concessions:

Licence	Field	Ownership %
DK 1/90 & 7/86	Lulita	10.000
DK Sole Concession of 8 July 1962	DUC	36.800

Organisational structure

Noreco Oil Denmark A/S is a wholly owned subsidiary of Noreco Denmark A/S. The ultimate parent company Norwegian Energy Company ASA is registered in Norway and listed at the Oslo Børs. For more information about the group please see the website www.noreco.com.

Noreco Oil Denmark A/S is the parent company of the subsidiaries Noreco Petroleum Denmark A/S and Noreco Oil UK Ltd.

Noreco Petroleum Denmark A/S

Noreco Petroleum Denmark holds a 10.0% share of license 1/90 & 786. The company has no employees.

Noreco Oil UK Ltd.

The company currently holds no licences, however Noreco Oil (UK) Ltd. is actively seeking strategic opportunities.

Key operations and profit

Total revenue for 2021 amounted to USD 558 million, increased from USD 480 million the previous year. The revenue is related to oil and gas sales from the DUC fields. The revenue in 2021 was achieved by a production of 7.5 million barrels of oil and 323.2 million Nm^3 of gas from the company's share in the DUC fields, compared to 8.0 million barrels of oil and 370.3 million Nm^3 of gas the previous year. The increase in revenue reflects the high gas price in 2021. Realized average oil price for 2021 was USD 58 per barrel compared to USD 57 per barrel the previous year. Production cost amounted to USD 360 million in 2021 compared to USD 358 million in 2020.

Net financial items amounted to an expense of USD 103 million in 2021, compared to an expense of USD 41 million in 2020, net financial items in 2020 included a reversal of write-down of investments in subsidiary of USD 45 million. The increase in financial items is driven by the debt under the RBL facility, the drawdown under the RBL facility increased by USD 149 million in 2021.

Income Tax amounted to a tax expense of USD 23 million for the year, compared to an income of USD 35 million in 2020.

Net profit after tax for the year amounted to USD 18 million compared to USD 65 million in 2020. Equity amounted to USD 318 million as of 31 December 2021 compared to USD 382 million as of 1 January 2021. The change in equity primarily reflects the value adjustments of financial instruments.

The result for the year was in line with the expectations for 2021.

On 2 February 2021, Noreco entered into an underwriting agreement with five banks for a USD 1.1 billion RBL facility with a seven-year term. The bank debt has been moved to Noreco Oil Denmark A/S as direct borrower from Altinex AS via issuance of an intercompany note. The RBL is provided to fund future development projects, and in particular the Tyra redevelopment project.

Noreco has established a link in the RBL to ESG targets that will support development progression of the Company's ESG strategy. Interest is accrued on the repayment amount with an interest rate comprising the current SOFR rate plus a 4.0 % margin per annum.

Outlook for 2022

Noreco has a stable business, underpinned by the Company's position in the DUC and further supported by risk mitigations. Nonetheless, in the near term COVID-19 may continue to affect the sector and the Company's activities. The Tyra Redevelopment is progressing and will significantly enhance the Noreco's base production after start-up. The Company also expects direct field operating expenditure to decrease to < USD 13 per barrel after Tyra is back on production. Our intent to progress value-additive organic DUC investment projects also continues, and we will seek to sanction projects as they are sufficiently matured. Noreco believes economic investments in these projects will help replace produced reserves and provide strong financial returns benefiting the Company's shareholders.

The Company has provided a production guidance of 23.5 – 25.5 mboepd for 2022.

Research and development

Noreco invests in research and development to support and further grow its E&P activities. The DUC has a partnership with DTU, Technical University of Denmark and has together established the Danish Hydrocarbon Research and Technology Centre (the "DHRTC").

DHRTC conducts research to improve future production of oil and gas from the Danish North Sea. The Centre's research seeks to increase sustainability through improved cost efficiency and reduced environmental impact. In 2021 the DUC invested DKK 98 million in the DHRTC. Current ongoing work programme includes:

- Improved recovery of hydrocarbons
- Produced water management (zero harmful discharge vision)
- Operations and maintenance technology
- Extended well life
- Robust & cost-effective abandonment for long-term environmental protection

Corporate Social Responsibility

For a statement of the company's corporate social responsibility, please refer to the consolidated financial statement of Norwegian Energy Company ASA page 56, the information can be found at: https://www.noreco.com/reports-and-presentations

Goals and policies for the underrepresented gender

The Board believes that its members should be elected on the basis of their combined qualifications and at the same time recognise the advantages of a Board comprising a wide range of backgrounds such as industry experience, professional competence, culture and gender. On this basis, the Board has in April 2021 defined a target to increase the share of the under-represented gender on the Board to account for at least 33 % of the board members appointed at the general meeting within 4 years. As of 31 December 2021, there was 0 women among the 3 board members appointed at the general meeting. For further information see page 56 in the consolidated financial statement of Norwegian Energy Company ASA

Health, Environment and Safety

Noreco puts emphasis on its employees performing company activities in line with the principals of business integrity and with respect for people and the environment. During 2021, Noreco was, through its ownership in the DUC in which TotalEnergies is the operator, involved in production of oil and gas which could cause emissions to the sea and air.

Noreco will conduct its business operation in full compliance with all applicable national legislation in the countries where it is operating. The Company is committed to carry out its activities in a responsible manner to protect people and the environment. Our fundamentals of HSEQ and safe business practice are an integral part of Noreco's operations and business performance.

The Danish Offshore Safety Act is the legal framework for promotion of a high level for health and safety offshore and for creating a framework enabling the companies to solve offshore health and safety issues themselves. The Danish Offshore Safety Act generally applies to all offshore activities related to hydrocarbon facilities, infrastructure and pipelines connected hereto.

Licensees under the Danish Subsoil Act are required to identify, assess and reduce health and safety risks as much as reasonably practicable, as well as be compliant with the ALARP (As Low As Reasonably Practicable) principle. Furthermore, the licensee shall ensure that operators are able to fulfil the safety and health obligations pursuant to the Danish Offshore Safety Act.

Reporting of payments to Governments

Requirements according to the Danish Financial Statements Act, section 99c have been fulfilled. The information can be found in the consolidated financial statements of Norwegian Energy Company ASA at page 50, the information can be found at: https://www.noreco.com/reports-and-presentations

Report on data ethics

Noreco does not yet have a policy for data ethics. Noreco primarily sells its products to few large companies and does not handle a significant amount of sensitive personal data. However, one of the purposes of Noreco Code of Conduct is to ensure that the employees familiarize themselves, and are aware of, proper data management within the Noreco organization.

Risks and uncertainties

Noreco Oil Danmark A/S is subject to a variety of risks, which derive from the nature of the oil and gas production and exploration activities, with zero tolerance for compliance risks and operational risks tolerance as low as reasonably practical.

Within the Noreco Group a single overall control framework is in place, which is designed to manage rather than eliminate the risk of failure to achieve business objectives, and only provides reasonable and not absolute assurance against material misstatement or loss. Management of the Company is responsible for application of, adherence to and safeguarding of internal systems for risk management.

The risks that the Company faces could have a material adverse effect separately, or in combination, on operational performance, earnings, cash flows and financial conditions.

The most significant risks in general terms and for the Company include:

Risks related to the Company’s assets

The Company’s future production of oil and gas is concentrated in a limited number of offshore fields that are located in a congregated geographical area. There are currently four production hubs which are interconnected and utilize the same infrastructure. In addition to this, the fields within one hub are interconnected and one field can depend on another for gas injection and other factors important to extract hydrocarbons. Gas produced on each of the hubs is normally processed and transported to shore via the Tyra hub. Due to the ongoing Tyra Redevelopment, gas is temporarily going to Dan and sent to the NOGAT system in the Dutch sector. The Gorm hub receives liquids from all the other hubs and sends it to shore via a pipeline on Gorm E. Consequently, the concentration of fields, infrastructure and other Noreco assets may result in that accidents, problems, incidents or similar on one location may affect a significant part of Noreco’s business.

Reserves risk

The Company's oil and gas production could vary significantly from reported reserves and resources. Should actual production deviate from estimated reserves, this may have a significant impact on the value of the Group's assets, the cash flow from operations and total revenues over the lifetime of the assets. Material deviations between actual results and estimated reserves for one asset may also create uncertainties about the estimated reserves of other assets based on the same assumptions, which may in turn be detrimental for investors' confidence in Noreco's reserves estimates.

Risks related to development projects

Noreco's development projects and resource portfolio will require substantial investments to bring into production. The Company may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in its oil and gas reserves. The Company makes and expect to continue to make substantial investments in its business for the development and production of oil and natural gas reserves. The Company's development projects may not be finalized within the projected budget or timeframe, or other unforeseen events may arise which affects the projects. The Company intends to finance the majority of its future investments with cash flow from operations and borrowings under its RBL Facility and other equity and debt facilities.

Decommissioning risks

There are significant uncertainties relating to the cost for decommissioning of licences including the schedule for removal of any installation and performance of other decommissioning activities. No assurance can be given that any anticipated costs and time of removal will be correct and any deviation from such estimates may have a material adverse effect on the Company's business, results of operations, cash flow and financial condition. Third party risk the Company is subject to third party risk in terms of operators and partners as it does not have a majority interest in any of its licences, and consequently cannot solely control such assets. Although the Company has consultation rights or the right to withhold consent in relation to significant operational matters, depending inter alia on the importance of the matter, level of its interest in the licence, which licence, the contractual arrangements for the licence, etc, the Company will have limited control over management of such assets and mismanagement by the operator or disagreements with the operator as to the most appropriate course of action may result in significant delays, losses or increased costs to it. Jointly owned licences also result in possible joint liability, on certain terms and conditions. Other participants in licences may default on their obligations to fund capital or other funding obligations in relation to the assets. In such circumstances, the Company may be required under the terms of the relevant operating agreement or otherwise to contribute all or part of such funding shortfall ourselves.

Risks related to commodity prices

The Company's business, results of operations, cash flow and financial condition will depend significantly on the level of oil and gas prices and market expectations of these and may be adversely affected by volatile oil and gas prices. The Company's future revenues, cash flow, profitability and rate of growth depend substantially on prevailing international and local prices of oil and gas. As oil and gas are globally traded commodities, Noreco is unable to control or predict the prices it receives for the oil and gas it produces; however, the Company has a material hedging programme in place that mitigates the short-term impact of price volatility. The hydrocarbons produced from specific fields may have a premium/discount to benchmark prices such as Brent and this may vary over time.

Currency risks

The Group is exposed to market fluctuations in foreign exchange rates. Revenues are in USD for oil and in EUR for gas, while operational costs, taxes and investment are in several other currencies, including DKK. The Company's financing is primarily in USD. Significant fluctuations in exchange rates between EUR and DKK, and USD and DKK may materially adversely affect the reported results.

Risks related to Danish taxation and regulations

All of Noreco Oil Denmark's petroleum assets are located in Denmark and the petroleum industry is subject to higher taxation than other businesses. There is no assurance that future political conditions in Denmark will not result in the relevant government adopting different policies for petroleum taxation than currently in place. However, due to the Compensation Agreement in place between the Danish State and the DUC, any alterations in present legislation to the disadvantage of the DUC licensees would be compensated. The compensation would be determined with a view to the impact of the changes on the DUC but however cannot exceed the net advantage deemed to have been obtained by the State. This agreement effectively reduces the risk associated with Danish taxation and regulations and provides for a high degree of influence for the DUC in the design and adoption of any amendments to the petroleum tax rules.

Risks related to debt financing

Noreco has exposure to floating interest rates, through the Company's debts to other group companies and debt under the RBL facility. The Company's floating interest rate exposure (SOFR) under its Reserve Based Lending Facility has been fixed through a swap agreement with a group of banks from 1 November 2021 until 30 June 2024. Noreco will as a result pay interest on its RBL cash drawings equal to 0.4041 percent plus the applicable margin.The Company's material hedging programme provides significant visibility over Noreco's ability to meet its requirements related to debt financing.

Risks related to future capital requirements

Noreco's future capital requirements will be determined based on several factors; including production levels, commodity prices, future expenditures that are required to be funded and the development of the Company's capital structure. To the extent the Company's operating cashflow is insufficient to fund the business plan at the time, and in particular the Tyra redevelopment project, additional capital may be required. Noreco currently has a strong financial base, supported by existing liquidity and hedging positions, however any unexpected changes that result in lower revenues or increased costs may necessitate the raising of additional debt. There can be no guarantee that, if required, Noreco would be able to access the debt on favorable terms, or if necessary be able to adequately restructure or refinance its debt.

Financial reporting risk

While Noreco has in place internal controls covering the Company's financial reporting function, any material error or omission could significantly impact the accuracy of our reported financial performance and expose the Company to a risk of regulatory or other stakeholder action.

Insurance risk

Although the Company maintains liability insurance in an amount that it considers adequate and consistent with industry standard, the nature of the risks inherent in oil and gas industry generally, and on the Danish Continental Shelf specifically, are such that liabilities could materially exceed policy limits or not be insured at all, in which event the Company could incur significant costs that could have adverse effect on its financial condition, results of operation and cash flow.

Political and regulatory risks

The Company is exposed to political and regulatory risks. Exploration and development activities in Denmark are dependent on receipt of government approvals and permits to develop its assets. The Danish Subsoil Act, among other things, sets out different criteria for the organization, competence and financial capability that a licensee at the Danish Continental Shelf (DCS) must fulfil at all times. The Company is qualified to conduct its operations on the DCS, however, there is no assurance that future political conditions in Denmark will not result in the government adopting new or different policies and regulations on exploration, development, operation and ownership of oil and gas, environmental protection, and labour relations. In December, the Danish government announced the “2050 North Sea Agreement” ceasing oil and gas extraction by 2050. The agreement provides industry stability and opportunities on the DCS, beyond the DUC concession which expires in 2042. Further, the Company may be unable to obtain or renew required drilling rights, licences, permits and other authorizations and these may also be suspended, terminated or revoked prior to their expiration.

Risks related to environmental regulations

The Company may be subject to liability under environmental laws and regulations. All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, and releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites are operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. The Company is subject to legislation in relation to the emission of carbon dioxide, methane, nitrous oxide and other so-called greenhouse gases. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material, in addition to loss of reputation.

Reputational risks

Noreco may be negatively affected by adverse market perception as it depends on a high level of integrity and to maintain trust and confidence of investors, DUC participants, public authorities and counterparties. Any mismanagement, fraud or failure to satisfy fiduciary or regulatory responsibilities, or negative publicity resulting from other activities, could materially affect the Company’s reputation, as well as its business, access to capital markets and commercial flexibility.

COVID-19

The global pandemic has severely impacted the daily lives of people as well as affected companies and markets. Governments and other authorities have imposed restrictions which limits the prerequisites for continuing normal business operations, including movement of people and their ability to get to their place of work. Noreco is well set up with IT infrastructure and routines which allow all staff to work remotely and as such are able to continue operating the Company. The Company, through its ownership in DUC, relies on a significant number of operational staff and third-party suppliers to maintain its operations at sufficient levels. TotalEnergies Denmark A/S, as the operator of DUC, has implemented extensive measures to protect personnel and secure business continuity, including among others screening of offshore personnel by TotalEnergies health staff.

Subsequent events

There are no events with significant accounting impacts that have occurred between the end of the reporting period and the date of this report. The Company monitors the Russia–Ukraine situation closely and has not identified any negative impact on the Company’s assets or income.

Financial Statements 1 January - 31 December
Income Statement

NOTE	USD '000	2021	2020
1	Revenue	558,418	480,213
2	Production costs	-360,466	-357,549
	Gross profit	**197,952**	**122,664**
3	Exploration costs	-724	-894
	Sales and distribution costs	-42,505	-42,901
4 - 5	Administrative costs	-11,775	-8,467
	Profit before financial items	**142,948**	**70,402**
11	Reversal of write-down of investments in subsidiary	0	45,373
6	Financial income	40,516	45,865
7	Financial costs	-143,231	-131,923
	Profit before tax	**40,232**	**29,718**
8	Tax on the profit for the year	-22,618	35,288
	PROFIT FOR THE YEAR	**17,614**	**65,005**

	Proposal for distribution		
	Retained earnings	17,614	65,005
	Proposed dividend	0	0
		17,614	**65,005**

BALANCE SHEET - ASSETS

NOTE	USD '000	2021	2020
	FIXED ASSETS		
	Licence	136,014	144,562
9	**Intangible fixed assets**	**136,014**	**144,562**
	Production facilities	1,076,735	1,091,597
	Asset under construction	818,443	607,673
	Operating assets and equipment	169	303
10	**Tangible fixed assets**	**1,895,347**	**1,699,574**
11	Investments in subsidiaries	45,373	45,373
12	Loans to group entities	655,515	0
	Derivative instruments	9,746	26,246
13	Restricted cash	140,465	125,465
14	Deferred tax assets	474,233	348,342
	Financial fixed assets	**1,325,330**	**545,425**
	TOTAL FIXED ASSETS	**3,356,691**	**2,389,560**
	CURRENT ASSETS		
	Inventories	**52,662**	**39,563**
	Trade Receivables	86,294	57,222
	Receivables from group entities	0	20,473
	Derivative instruments	0	34,222
	Prepayments	19,820	22,531
	Receivables	**106,114**	**134,448**
	Cash in hand and at bank	**100,148**	**46,126**
	TOTAL CURRENT ASSETS	**258,923**	**220,137**
	TOTAL ASSETS	**3,615,614**	**2,609,698**

BALANCE SHEET - LIABILITIES

NOTE	USD '000	2021	2020
	SHAREHOLDERS' EQUITY		
	Share capital	27,040	27,040
	Retained earnings	290,898	355,064
15	**TOTAL SHAREHOLDERS' EQUITY**	**317,938**	**382,104**
	LIABILITIES		
16	Reserve based lending facility	852,343	0
17	Asset retirement obligations	987,945	910,784
	Derivative instruments	88,777	2,408
	Debts to group entities	1,097,424	1,002,914
	Long-term liabilities other than provisions	**3,026,489**	**1,916,106**
17	Asset retirement obligations	26,219	23,529
	Trade Payables	78,475	97,469
	Debts to group entities	0	5,834
	Derivative instruments	116,350	4,693
	Other debts	50,143	179,962
	Short-term liabilities	**271,187**	**311,488**
	TOTAL LIABILITIES OTHER THAN PROVISIONS	**3,297,676**	**2,227,594**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,615,614**	**2,609,698**

18 Contingent liabilities
19 Related parties
20 Contingencies and commitments
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Statement of changes in equity

USD '000	Share capital	Retained Earnings	Proposed dividend for the year	Total equity
2021				
Equity at 1 January	27,040	355,064	0	382,104
Ordinary dividend paid	0	0	0	0
Net profit for the year	0	17,614	0	17,614
Value adjustment financial instruments after tax	0	-81,780	0	-81,780
Proposed dividend for the year	0	0	0	0
Equity at 31 December	**27,040**	**290,898**	**0**	**317,938**
2020				
Equity at 1 January	27,040	244,852	0	271,892
Ordinary dividend paid	0	0	0	0
Net profit for the year	0	65,005	0	65,005
Value adjustment financial instruments after tax	0	45,207	0	45,207
Proposed dividend for the year	0	0	0	0
Equity at 31 December	**27,040**	**355,064**	**0**	**382,104**

NOTES TO THE ACCOUNTS

NOTE	USD '000	2021	2020
1	**Revenue**		
	Oil	415,997	449,383
	Gas	142,421	30,829
	Total	**558,418**	**480,213**
	By geographical area:		
	Denmark	511,698	470,743
	North West Europe	46,720	9,470
	Total	**558,418**	**480,213**
2	**Production costs**		
	Operating costs	249,310	251,686
	Depreciation	111,156	105,863
	Total	**360,466**	**357,549**
3	**Exploration costs**		
	Exploration costs	724	894
	Total	**724**	**894**
4	**Personnel costs and employees**		
	Personnel costs		
	Salaries etc.	4,329	2,962
	Pension contributions	346	298
	Other social security costs	20	15
	Total	**4,695**	**3,275**
	Personnel costs and executive and board remuneration are included in the item Administrative costs		
	With reference to provision 98b, 3.2 of the Danish Financial Statements Act, no Board of Directors' fee and Management remuneration is shown due to only one person receiving remuneration		
	Number of employees		
	Average for the year	16.4	16
	By the end of the year	17	16
5	**Audit fees**		
	Audit	231	233
	Other assurance services	5	10
	Total	**236**	**243**

NOTE	USD '000	2021	2020
6	**Financial income**		
	Interest income	0	1,359
	Interest from group entities	21,098	2,612
	Unrealized gains derivatives	979	28,803
	Foreign exchange gains	18,439	13,092
	Total	**40,516**	**45,865**
7	**Financial costs**		
	Interest expenses	66,407	36,129
	Interest to group entities	54,589	55,306
	Unrealized loss derivatives	7,506	3,377
	Loss derivatives	4,611	0
	Foreign exchange losses	10,118	37,111
	Total	**143,231**	**131,923**
8	**Tax on the result for the year**		
	Danish tax payable, contribution from joint taxation	-8,879	0
	Adjustment deferred tax, current year	33,363	-39,263
	Adjustment of deferred tax prior years	-3,634	3,975
	Adjustment regarding previous years	1,768	0
	Total	**22,618**	**-35,288**

NOTE USD '000

9 Intangible fixed assets

	Licence	Exploration
Acquisition cost as at 1 January	156,000	1,861
Additions during the year	0	-499
Acquisition cost as at 31 December	**156,000**	**1,362**
Depreciation as at 1 January	13,299	0
Depreciation during the year	8,049	0
Depreciation as at 31 December	**21,348**	**0**
Book value as at 31 December	**134,652**	**1,362**
Depreciation is included in the items below:		
Production costs	8,049	0

10 Tangible fixed assets

	Production facilities	Asset under construction	Operating assets and equipment
Acquisition cost as at 1 January	1,254,232	607,673	498
Additions during the year	88,245	210,770	36
Acquisition cost as at 31 December	**1,342,477**	**818,443**	**534**
Depreciation as at 1 January	162,635	0	195
Depreciation for the year	103,107	0	170
Depreciation as at 31 December	**265,742**	**0**	**365**
Book value as at 31 December	**1,076,735**	**818,443**	**169**
Depreciation is included in the items below:			
Production costs	103,107		
Administrative costs	0	0	170

NOTE	USD '000	2021	2020
11	**Investments in subsidiaries**		
	Acquisition cost as at 1 January	57,667	57,667
	Acquisition cost as at 31 December	**57,667**	**57,667**
	Value adjustments as at 1 January	-12,294	-57,667
	Reversal of write-down	0	45,373
	Value adjustments as at 31 December	**-12,294**	**-12,294**
	Book value as at 31 December	**45,373**	**45,373**

Investments in subsidiaries are specified as follows:

Name:	Address:	Share of votes and interest	Profit (loss) for the year	Equity
Noreco Petroleum Denmark A/S	Copenhagen, Denmark	100%	-4,462	57,758
Noreco Oil (UK) Limited	London, England	100%	-1,403	-3,407

		2021	2020
12	**Loans to group entities**		
	As at 1 January	0	73,622
	Additions/repayment during the year	655,515	-73,622
	Balance as at 31 December	655,515	**0**

The loans to group entities shall be repaid in full on 31 July 2026.

13	**Restricted cash**		
	Restricted cash pledged as security for cash call obligation	140,465	125,465
	Total	140,465	**125,465**

1) Noreco has made a USD 140 million deposit into a cash call security account in accordance with a cash call security agreement with Total E&P Denmark A/S as operator of the DUC. USD 140 million is the maximum amount required in the escrow security account.

NOTE	USD '000	2021	2020
14	**Deferred tax**		
	Deferred tax as at 1 January	348,342	393,421
	Tax of value adjustment financial instruments	155,620	-80,367
	Deferred tax adjustment in the income statement	-29,729	35,288
	Balance as at 31 December	**474,233**	**348,342**
15	**Shareholders' equity**		
	Changes in equity		
	Shareholders' equity as at 1 January	**382,104**	**271,892**
	Profit for the year	17,614	65,005
	Value adjustment financial instruments after tax	-81,780	45,207
	Shareholders' equity as at 31 December	**317,938**	**382,104**
	In 2018 the share capital was increased by 1,000 shares, at a nominal value of DKK 100. After this the share capital comprise 1,531,000 shares, at a nominal value of DKK 100. Prior to this the share capital has remained unchanged for 5 years.		
	Share capital as at 1 January	27,040	27,040
	Additions during the year	0	0
	Shareholders' equity as at 31 December	**27,040**	**27,040**
	Retained earnings		
	Balance as at 1 January	355,064	244,852
	Profit for the year	17,614	65,005
	Value adjustment financial instruments after tax	-81,780	45,207
	Retained earnings as at 31 December	**290,898**	**355,064**
	Shareholders' equity as at 31 December	**317,938**	**382,104**

NOTES TO THE ACCOUNTS

16 Details on borrowing

In April 2021, Noreco amended its existing senior secured reserve-based credit facility to commit to a seven-year senior reservebased credit facility of USD 1.1 billion. The facility is a reserve-based credit facility secured against certain cash flows generated by the Group. The amount available under the facility is recalculated every six months based upon the calculated cash flow generated by certain producing fields and fields under development at an oil price and economic assumptions agreed with the banking syndicate providing the facility. The facility is secured by a pledge over the shares of certain Group companies, a pledge over the Company's working interest in its share of the DUC license and security over insurances, hedging contracts, project accounts, intercompany loans and material contracts.

The reserve-based credit facility constitutes senior debt of the Company and is secured on a first priority basis against certain of the Company´s subsidiaries and their assets. The reserve-based credit facility agreement contains a financial covenant that the ratio of Net Debt to EBITDAX (earnings before interest, tax, depreciation, amortisation and exploration) shall be: less than 6.0:1.0 at the end of financial years 2021 and 2022; less than 3.5:1.0 at the end of financial year 2023; and less than 3.0:1.0 at the end of financial year 2024 onwards until the expiry of the facility. Each test is carried out on the audited full year financial statements of Noreco ASA. Noreco must also demonstrate minimum liquidity on a look forward basis of USD 50 million dur ing the relevant period, which is currently to the completion of the Tyra redevelopment project. The agreement also includes special covenants which, among other, restrict the Company from taking on additional secured debt, provide parameters for minimum and maximum hedging requirements and restrict declaration of dividends or other distributions. Noreco is in compliance with these covenants at the end of 2021.

Payment stucture - reserve based lending facility	**USD '000**
2022	0
2023 - 2026	588
2027 -	312
Total	900

	USD '000	**2021**	**2020**
17	**Asset retirement obligations**		
	Asset retirement obligations as at 1 January	934,313	953,682
	Adjustments during the year	45,036	-55,381
	Addition during the year	0	0
	Accretion expense related to asset retirement obligations	34,815	36,012
	Balance as at 31 December	**1,014,164**	**934,313**
	Break down of short-term and long-term asset retirement obligations		
	Short-term	26,219	23,529
	Long-term	987,945	910,784
	Balance as at 31 December	**1,014,164**	**934,313**

As part of the overall restructuring in 2015, an agreement was reached that entails that the partners took over Noreco's share of the Nini/Cecilie licences, however Noreco remains liable for the asset retirement obligation towards the license partners. The liability related to Nini/Cecilie is capped at the escrow amount, which is currently DKK 427 million, corresponding to USD 65 million of which USD 53 million relates to Noreco Oil Denmark A/S.

NOTES TO THE ACCOUNTS

18 Contingent liabilities

The Company has received a claim regarding the level of Ørsted pipeline tariffs charged since 2013. As the relevant authority (Forsyningstilsynet) is currently reassessing their view, Noreco believes that there is no basis for this claim prior to a new ruling setting the appropriate level of these tariffs. Given the outcome of this and any consequent liability is not yet known, the Company has not recognized a provision for this claim.

During the normal course of its business, the company may be involved in disputes, including tax disputes. The company has not made accruals for possible liabilities related to litigation and claims based on management's best judgment.

Noreco has unlimited liability for damage in relation to its participation in the DUC. The Company has insured its pro rata l iability in line with standard market practice.

Apart from the issues discussed above, the Group is not involved in claims from public authorities, legal claims or arbitrations that could have a significant negative impact on the Company's financial position or results.

The company is jointly taxed with other Danish group companies. As a group company, the company is indefinitely and jointly and severally liable with other group companies for Danish corporate and withholding taxes on dividends, interest and royalties within the joint taxation. Any subsequent corrections of joint tax income and withholding tax, etc. could result in liability for the company.

The senior reservebased credit facility of USD 1.1 billion is secured against certain cash flows generated by the Group. Further, the shares in Noreco Oil Denmark and Noreco Petroleum Denmark, and the Company's interest in its share of the DUC and insurances contracts, hedging contracts, project accounts, intercompany loans and material contracts have been pledged as collateral for the Noreco Group's loans, the pledged assets on 31 December 2021 amounted to USD 1.9 billion.

19 Related party disclosures

Noreco Oil Denmark A/S' related parties comprise the following:

Control

Noreco Denmark A/S, Lyngbyvej 2, 2100 Copenhagen

Noreco Denmark A/S holds the majority of the contributed capital in the Company.

Substantial influence

Noreco Denmark A/S, being principal shareholder.

Noreco Oil Danmark A/S is part of the consolidated financial statements of Norwegian Energy

The consolidated financial statements of Norwegian Energy Company ASA can be obtained by

Other related parties

The company's other related parties comprise companies in the Noreco Group, board members, management and leading employees and their family members. Further, related parties comprise companies, in which aforementioned persons have substantial interests.

Related party transactions USD '000	2021	2020
Purchase of services from associates	3,849	1,895

20 Contingencies and commitments

As a partner in DUC, the Company has commitment to fund its proportional share of the budget and work programmes of the DUC. In December each year the operating budget (which includes operating expenditures, capital expenditure related to production, exploration and abandonment) for the following year is agreed amongst the DUC partners. For the coming four years the average operating budget is expected to be around USD 230 million per year. Capital and abandonment expenditure for individual projects, such as Tyra, are approved separately.

Noreco's capital commitments are principally related to the ongoing Tyra redevelopment project. The gross capital and abandonment expenditure budget for the Tyra redevelopment project at the time of the investment decision was DKK 21 billion and DKK 17.0 billion had been incurred by the end of 2021. Based on the current project schedule, Noreco will be required to fund its proportional share of this remaining expenditure over the next three years with Tyra to restart production by June 2023.

The DUC is obliged to use the specially constructed oil trunk line, pumps and terminal facilities and to contribute to the construction and financing costs thereof as a result of an agreement entered into with the Danish government. This obligation is approximately USD 18 million per year (2020: USD 22 million).

21 Subsequent events

There are no events with significant accounting impacts that have occurred between the end of the reporting period and the date of this report. The Company monitors the Russia–Ukraine situation closely and has not identified any negative impact on the Company's assets or income.

Notes to the Accounts

Applied accounting policies

The annual report is prepared in accordance with the provisions of the Danish Financial Statements Act regarding companies under reporting class C.

The applied accounting policies are the same as last year.

According to the Danish Financial Statements Act § 112, subsection 1, no consolidated account is to be prepared. The annual reports of Noreco Oil Denmark A/S and its subsidiaries are included in the consolidated accounts for Noreco ASA.

With reference to the Danish Financial Statements Act § 86 section 4, the company has refrained from preparing cash flow statement.

Recognition and measurement

Revenue is recognised in the income statement as it is earned. In addition, value adjustments are recognised for financial assets and liabilities measured at fair value or amortized cost. All expenses incurred to achieve the year's earnings are recognised in the income statement, including depreciations, write-downs and provisions, and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will derive from the company and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each accounting item below.

Foreign currency translation

The annual report is presented in USD, which is the functional currency of the company. The following exchange rates have been used: as of 31 December 2021 0.152411 USD/DKK; and as of 31 December 2020: 0.165082 USD/DKK

Foreign currency transactions are translated applying the exchange rate at the transaction date. Exchange rate differences arising between the exchange rate at the transaction date and the rate at the payment date are recognised in the income statement as a financial item. If currency positions are considered to hedge future cash flows, value adjustments are recognised directly in equity.

Receivables, debt and other monetary items in foreign currencies not settled at the balance sheet date are measured at the exchange rate at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the time the receivable or debt arises is recognised in the income statement under financial income and expenses.

Fixed assets purchased in foreign currency are measured at the exchange rate on the transaction date.

Notes to the Accounts (continued)

Applied accounting policies

BUSINESS COMBINATIONS
When acquiring new activity, the purchase method is applied under which identifiable assets and liabilities are measured at fair value at the date of acquisition. Restructuring costs recognised in the acquirer at the acquisition date that are not a part of the acquisition are included in the pre-acquisition balance sheet and thus the determination of goodwill. Restructuring that is adopted after the acquisition is recognised in the income statement. The tax effect of revaluations is recognised as deferred tax.

Restructuring provisions, are recognised as intangible assets and amortised systematically in the income statement based on an individual assessment of the useful life.

Newly acquired or newly established activity is recognised in the consolidated financial statements at the date of acquisition or establishment.

Income Statement

REVENUE
Revenue is recognized when the customer obtains control of the hydrocarbons, which is ordinarily at the point of delivery (lifting and sales) when title passes (sales method).

PRODUCTION COSTS
Production costs are costs that are directly attached to production of hydrocarbons, e.g. costs for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc. Further, production costs includes depreciation of production facilities and adjustment of over- under lift position.

EXPLORATION COSTS
Exploration costs include the year's costs related to exploration activities and write-downs on dry wells.

SALES AND DISTRIBUTION COSTS
Sales and distribution costs include costs in connection with transport and sale of oil and gas.

ADMINISTRATION COSTS
Administration costs comprise salaries, office costs and depreciations etc.

FINANCIAL INCOME AND EXPENSES
Financial income and expenses include interest income and expense, realized and unrealized exchange rate adjustments and amortization of financial liabilities.

TAX ON PROFIT FOR THE YEAR
Tax on profit for the year consists of the current tax and offset in deferred tax for the year and is recognised in the income statement with the portion attributable to the profit for the year and directly on equity with the portion attributable to entries directly on equity.
The tax has been calculated considering that Noreco Oil Denmark A/S has opted out of international joint taxation. The tax value of investments and profit in foreign permanent establishments is not capitalized.

The company is jointly taxed with Noreco Olie- og Gasudvinding Danmark B.V. Danish Branch, Noreco Petroleum Denmark A/S, Noreco DK Pipeline ApS and Noreco Denmark A/S. The Company’s subject to joint taxation and have unlimited joint and several liability for Danish corporation taxes.

Notes to the Accounts (continued)

Applied accounting policies

Balance Sheet

INTANGIBLE FIXED ASSETS
The group applies the successful efforts method of accounting for oil and gas exploration expenditures. Expenditures to acquire interests in oil and gas properties and to drill and equip exploratory wells are capitalised as exploration expenditures within intangible assets until the well is complete and the results have been evaluated, or there is any other indicator of a potential impairment. Exploration wells that discover potentially economic quantities of oil and natural gas remain capitalised as intangible assets during the evaluation phase of the discovery. This evaluation is normally finalised within one year. If, following the evaluation, the exploratory well has not found potentially commercial quantities of hydrocarbons, the capitalised expenditures are evaluated for derecognition or tested for impairment. Geological and geophysical expenditures and other exploration and evaluation expenditures are expensed as incurred.

Capitalised exploration expenditures, including expenditures to acquire interests in oil and gas properties, related to wells that find proved reserves are transferred from exploration expenditures (intangible assets) to tangible fixed assets at the time of sanctioning of the development project.

TANGIBLE FIXED ASSETS
Tangible fixed assets include production facilities, machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation. Production plants are depreciated from the start of production according to the Unit of Production method based on produced and expected recoverable amounts of oil.

For tangible fixed assets where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value is added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items (major components) of tangible fixed assets and depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of tangible fixed assets, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains.

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This generally gives a more systematic allocation of depreciation expenses over the useful life than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Notes to the Accounts (continued)

Applied accounting policies

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight-line method.

The estimated useful lives are as follows:
- Office equipment and fixtures: 3-5 years

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

INVESTMENTS IN SUBSIDIARIES
Investments in subsidiaries are measured in the parent company at cost. An impairment test is performed of each asset or group of assets, respectively, if there is an indication of impairment. When the cost exceeds the recoverable amount, write-down is made to the lower value.

IMPAIRMENT OF ASSETS
The carrying amount of intangible and tangible assets is assessed annually for impairment, in addition to what is expressed by depreciation. If there are indications of impairment, an impairment test is performed for each asset or group of assets. Write-down is made to the recoverable amount if it is lower than the carrying amount. The recoverable amount is the highest value of the net selling price and capital value. The capital value is calculated as the present value of expected net cash flows from the use of the asset or group of assets and expected net cash flows from the sale of the asset or group of assets after the end of useful life.

RECEIVABLES
Receivables are measured at amortized cost or a lower net realizable value, which is normally nominal value less write-downs to meet any expected losses.

Prepayments and debt to operators are measured as the difference between paid cash calls and costs incurred according to the operator accounts for the individual licenses.

Prepayments, recognised under assets, include costs paid for subsequent financial years and are measured at cost. The item also includes recognised underlifting of crude oil, which is measured at realizable value. As the producing fields have more participants, situations may arise where a participant has lifted and sold more/less oil than the participant is relatively entitled to at the time of the lift. Such a situation is termed overlift and underlift respectively. Crude oil lifting is recognised under current liabilities under other debt.

DIVIDEND
Proposed dividends are recognised as a liability at the time of adoption at the Annual General Meeting (the date of declaration). Dividends expected to be paid out for the year are shown as a separate item under equity.

CORPORATE AND DEFERRED TAX
Current tax liabilities and receivables are recognised in the balance sheet as calculated tax on the taxable income for the year, adjusted for prepaid tax.

Deferred tax is measured using the balance sheet debt method of all temporary differences between the carrying amount and the tax value of assets and liabilities

Notes to the Accounts (continued)

Applied accounting policies

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the value at which they are expected to be used. Changes in deferred tax due to changes in tax rates are recognised in the income statement.

ASSET RETIREMENT OBLIGATIONS
Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense. If abandonment cost through agreements with partners have been limited to a given amount, this then forms the basis for the recognized liability.

LIABILITIES
Liabilities including debt to suppliers and group entities, as well as other debt, are measured at amortised cost, which usually corresponds to nominal value.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company uses derivative financial instruments, such as forward commodity contracts and options, to reduce the exposure to commodity price volatility. Effective from 1 October 2019 the Company has elected to apply cash flow hedge accounting designating these derivatives. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and from the date of start of cash flow hedge accounting. These are subsequently remeasured at fair value and the effective portion of the gain or loss on the hedging instrument is recognised in Shareholders' equity, while any ineffective portion is recognised immediately in profit or loss (financial income or financial expenses). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in Shareholders’ equity is reclassified to profit or loss as a reclassification adjustment in the same periods during which the hedged cash flows affect profit or loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in Shareholders’ equity must remain in accumulated Shareholders’ equity if the hedged future cash flows are still expected to occur. Otherwise the amount will be immediately reclassified to profit or loss as a reclassification adjustment. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.