



European Energy Holding ApS

Annual report 2018

The annual report has been presented and approved at the Company's annual general meeting on 31 May 2019

Jan Paulsen
Chairman

CVR no. 25 62 56 76
Gyngemose Parkvej 50, 2860 Søborg

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Statement by the Executive Board

The Executive Board has today discussed and approved the annual report of European Energy Holding ApS for the financial year 1 January – 31 December 2018.

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

In my opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2018.

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

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

Søborg, 31 May 2019

Executive Board:

Knud Erik Andersen

Independent auditor's report

To the shareholder of European Energy Holding ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of European Energy Holding ApS for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Company and a cash flow statement for the Group. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2018 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 consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. 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 consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company 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 consolidated financial statements and parent company 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 consolidated financial statements and the parent 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 Group's and the Parent 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 consolidated financial statements and the parent company 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 Group's and the Parent 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 consolidated financial statements and the parent company 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 Group and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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 consolidated financial statements and the parent company 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, 31 May 2019

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Martin Eiler

State Authorised Public Accountant
MNE No. mne32271

Management's review

Company details

European Energy Holding ApS
Gyngemose Parkvej 50
DK-2860 Søborg

CVR no.: 25 62 56 76
Established: 30 August 2000
Registered office: Gladsaxe
Financial year: 1 January – 31 December

Executive Board

Knud Erik Andersen

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 Copenhagen

Annual general meeting

The annual general meeting will be held on 31 May 2019.

Management's review

EUR'000	2018	2017	2016	2015	2014*
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Key figures

Revenue	96,439	187,065	143,632	73,559	62,947
Direct costs	-60,589	-147,361	-107,281	-57,531	-44,115
Gross profit	35,850	39,704	36,351	16,028	18,832
Operating profit	25,575	28,532	27,209	7,548	11,634
Net financial income and expenses	190	-1,692	-6,647	-1,198	-5,542
The Group's share of profit for the year	15,981	14,212	14,108	2,747	5,175

Total assets	443,749	284,742	213,729	215,683	191,602
Equity	69,438	53,872	39,587	25,383	34,891

Cash flow from operating activities	-151,215	-14,133	6,785	-17,028	-6,161
Net cash flow from investing activities	-490	3,588	724	-5,484	-4,650
Portion relating to investment in property, plant and equipment, net	-12,576	-815	-6,848	-98	-5,563
Cash flow from financing activities	161,857	43,992	-8,022	20,004	18,860
Total cash flow	10,152	33,447	-513	-2,508	8,049

Financial ratios

Gross margin	37.2%	21.2%	25.3%	21.8%	29.9%
Operating margin	26.5%	15.3%	18.9%	10.3%	18.5%
Equity ratio	15.6%	18.9%	18.5%	11.8%	18.2%
Return on equity	25.9%	30.4%	43.4%	11.4%	15.8%

Average number of full-time employees	95	74	64	53	46
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*) Figures for 2014 have not been adjusted to the changed revenue recognition implemented in 2016.

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios have been calculated as follows:

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit after tax} \times 100}{\text{Average equity}}$

Management's review

The Company's Main Activities

The main focus of the European Energy Holding Group is developing and constructing wind turbines and solar parks. Another focus of the Group is purchasing existing renewable energy parks and the financing of these for either disposal or operation.

The most significant part of the activities in the Group are related to the subsidiary European Energy A/S.

Business model

Since 2004, European Energy has acquired considerable know-how in all stages of the wind and solar power value chain. This expertise ranges from identifying new sites and securing financing to managing the actual construction process and ensuring the reliable operation of assets.

European Energy has three main business areas:

- development, construction and divestment
- sale of electricity from operational assets
- asset management

Reference is made to the Annual Report of European Energy A/S for a comprehensive description of the business model etc. of the European Energy A/S Group.

Development of Operations

European Energy Holding ApS has provided security in the form of parent company guarantees in order to secure certain subsidiaries' financial obligations towards third parties during the construction of facilities related to renewable energy projects etc. The company has on the top of the activities in the subsidiary European Energy A/S only a few other balance sheet items in the Group related to non-current assets (Other receivables), current assets (deferred tax asset) and to liabilities (Other payables).

Management's review

Group structure of European Energy Holding

European Energy Holding ApS is the parent company of the European Energy Holding Group and owns several subsidiaries and associates. The most significant part of the activities in the Group are related to the subsidiary European Energy A/S.

European Energy A/S is the parent company of the subgroup and owns several subsidiaries, associates and joint-venture companies, which in turn own additional subsidiaries, associates or joint-venture companies.

The number of companies is relatively high because many of European Energy's wind and solar farms are held by special purpose vehicles (SPV). The sole purpose of an SPV is the acquisition, financing and construction of particular wind and solar farms. The SPV usually has an asset/liability structure and legal status that makes its obligations secure even if the parent company becomes insolvent. Financing is obtained through the SPV, and, together with equity provided by its owners, this is how the SPV obtains funds to construct the assets. Since the SPV owns the assets, which are provided as collateral for external financing, the risk for the parent company is limited; however, European Energy may, in some cases, provide guarantees for an SPV's debt during the construction phase. The SPVs take the form of either a limited company or a tax-transparent company.

Another advantage of using an SPV is when providing debt to the SPV, the financing bank evaluates the SPV's assets and corresponding collateral, and does not need to evaluate the parent company or take into account any debt other than that of the SPV. This reduces the funding cost. The SPV structure also has the benefit of facilitating the divestment of wind and solar farms, since the projects can be sold as single, separate legal entities.

Management's review

Financial performance

Revenue recognition of developed, constructed and sold wind and solar farms

European Energy's customer base is comprised of institutional investors and utilities that invest in stable cash flows generated by operational wind or solar farms. If the investor buys a completed and operational energy farm, the revenue is recognised when the asset is built, put into operation and the buyer has accepted takeover of the SPV.

It can take up to five years from the beginning of a project for the income generated by its sale to be recognised in the annual report.

Consequently, there will be a substantial difference between European Energy's value creation in the project and the point in time when the revenue is recognised as income.

In cases where a share of the transaction price is conditional on the delivery of a certain amount of electricity or on the cost of operation not exceeding a given amount, the variable amount is only included if it is highly likely that a substantial part of the amount will not be subsequently repaid. If it is not highly likely, the income is not recognised until a later point in time when all performance obligations have been fulfilled.

To the extent that the price of the transaction is paid over a period of time, the present value is recognised with the discounted value of the future cash flows.

Profit and loss

The Group delivered the best ever results in a year when the construction of more energy farms was in focus. The total amount of MW taken into production in 2018 was 211 MW, compared to 146 MW in 2017.

The Group issues quarterly financial reports stating profit and loss, balance, cash flow, equity statement and material disclosures. For information on the performance in quarter four, please see the report for this quarter.

Revenue

The revenue for 2018 was recognised at EUR 96.4 million compared to EUR 187.1 million in 2017.

The decrease in revenue was in the sale of energy farms segment, which can be seen in note 2 to the annual report. Revenue from the sale of energy farms in 2018 was EUR 73.6 million as opposed to EUR 175.3 million in 2017. In 2018 there have been more sales of associated companies than in 2017, and the recognition of such sale of shares is treated as a net transaction compared to sale of controlled companies, which is treated as gross.

This difference accounts for some of the major drop in revenue. Also, the closure of a sale of a major wind park in Italy was postponed to 2019, which would also have increased the revenue for the year substantially. The sale has now been closed in the first quarter of 2019.

Management's review

The increase in construction of energy parks has contributed to the sale of electricity for the Group.

As a result of this, revenue from electricity sales increased to EUR 19.8 million from EUR 10.1 million in 2017.

The asset management and other fees increased in 2018 to EUR 3.0 million compared to 2017 when the revenue for this segment was EUR 1.7 million. The increase in revenue comes from more energy parks under asset management, partly due to the Group continuing to do the monitoring and financial management of the parks after the disposal, and partly due to more business partners placing the assets under European Energy's management. The Management is very pleased with this and expects to grow this part of the business as well.

The asset management fee is only a small part of the Group's total revenue, but represents added value to the Group's results since the caretaking of assets for institutional investors often triggers new business for the Group in the form of repowering opportunities in existing energy parks. In these cases, European Energy can offer turnkey solutions to customers, and the Group ends up with additional EPC revenue.

Equity-accounted companies

The profit from equity-accounted investments increased in 2018 to EUR 5.8 million compared to EUR 5.4 million in 2017. Again, this year, some of the profit came from development and construction in joint ventures (JVs) and associated companies. It can be difficult to evaluate the total size of business in the Group when only a part of the sale of electricity or energy parks are recognized gross in the revenue lines in the profit and loss statement, and a major part is recognised only through the after-tax results in the line for profit from equity-accounted investments. In the annual report of the subsidiary European Energy A/S, we have tried to accommodate for this, showing i.e. the Group's share of electricity sales including all companies both controlled, JVs and associated companies (please see "Sale of electricity"). The net total electricity sale for the Group is EUR 35.1 million.

On top of this, the sale of energy parks in associated companies for 2018 were EUR 41.2 million, which contributed to the results in the equity-accounted investments.

Other income

The Group's other investments in shares includes share holdings of less than 20% in companies with energy parks. These shares are evaluated to market value. The total adjustments made in 2018 resulted in an income of EUR 1.2 million compared to EUR 1.4 million in 2017. The results are recognised as other income.

Direct costs

With direct costs of EUR 60.6 million in 2018, the Group achieved a total gross profit of EUR 35.9 million compared to direct costs of EUR 147.4 million and a gross profit of EUR 39.7 million in 2017. The revenue from sale of fully consolidated companies in the year, in addition to the increase in electricity sales, resulted in an increase in the gross margin from 21% in 2017 to 37% in 2018.

Management's review

Staff costs

The staff costs decreased from EUR 7.0 million in 2017 to EUR 5.0 million in 2018. The part of the staff costs that is related to the construction of energy parks are capitalized as part of the inventory. When the energy parks are sold, the capitalized amount of salaries for the specific park is expensed in the direct costs. Due to the focus on the construction of parks in 2018, the capitalized amount has increased, which is the explanation for the drop in staff costs.

Depreciation

The Group has, in 2018, added two wind parks to the balance of power-producing assets owned by the Group. One of them was the offshore park, Sprogø. As a result of this, the depreciation has increased from EUR 1.7 million in 2017 to EUR 2.5 in 2018.

Financial income

The total financial income increased from EUR 2.7 million in 2017 to EUR 3.6 million in 2018. The level of currency gains being almost the same, the increase came from increasing interests. This development was expected since the increasing equity gives the Group the possibility of being a greater part of the financing of the construction of the energy parks. This creates interest income for the parent company, while the interest expenses are a part of the capital expenditure for the energy parks.

Financial expenses

The financial expenses on the other hand decreased from EUR 9.8 million in 2017 to EUR 9.2 million in 2018. The decrease comes primarily from a decrease in currency losses.

Tax

Tax in the Group was recognised to EUR 3.4 million in 2018, with EUR 0.8 million in paid tax. For 2017, the numbers were EUR 4.8 million in tax expenses and EUR 3.3 million in paid tax. The Group has paid tax in Spain, Germany and Denmark. Profit after tax amounted to EUR 22.4 million in 2018, compared to EUR 22.1 in 2017.

Non-controlling interests

The non-controlling interests (minority shareholders) part of the profit was EUR 6.4 million in 2018 and EUR 7.8 million in 2017. The majority of the profit allocated to minority shareholders in 2018 was related to sale of electricity in Denmark while the minority shareholders' share of the 2017 result was closely related to the sale of 3 solar projects in Brazil – projects realised in cooperation with the Danish Climate Investment Fund.

The balance sheet

Property, plants & equipment

The Group's aim is for all construction projects or acquisitions undertaken to be for the purpose of sale. The vast majority of development, construction and acquisitions are therefore presented in the inventories. The value of plant on the balance sheet in Property, Plant & Equipment, PPE, only increases when investments are made with no immediate expectation of a future sale of the project, or when a completed site is not sold for strategic reasons. Acquired land, which is not sold as a wind or solar farm, but which is kept for strategic reasons, will also increase the PPE.

Management's review

PPE increased from EUR 50.3 million in 2017 to EUR 85.9 million in 2018. The increase comes from a wind park in Denmark, which has been reclassified from inventory to PPE, and from the purchase of an offshore wind park, Sprogø.

Equity-accounted investments

Equity-accounted investments (associates) totalled EUR 20.6 million; down from EUR 22.5 million in 2017. The equity-accounted companies had a profit after tax of EUR 5.8 million, but due to disposals of companies and dividends, the Group managed to decrease the volume of the investments.

Other investments

Other investments for the Group are normally share-holdings with less than 20% ownership. These investments are recognised to market value. In 2018, share-holdings in a wind park in Germany, which were previously recognised as an associated company, were reclassified to other investments after an IFRS 10 test showed that the Group no longer had material influence on the results. The value of Other Investments increased during the year to EUR 6.8 million from 5.0 million in 2017.

Receivables from associates

Receivables from associates increased by EUR 15.7 million to a total of EUR 26.7 million. The increase comes primarily from the loans to 3 solar parks in Brazil, and represents the Group's part of the construction costs for these parks.

Trade receivables and contract assets

Trade receivables and contract assets (current and non-current) decreased in total by EUR 1.2 million to EUR 13.5 million in 2018 from EUR 14.7 million in 2017.

The Group sells turnkey assets, and the recognition of revenue is typically done at the close of the sale of the energy farms when the major part of the sales price for the shares is paid. This minimises the trade receivables and contract assets.

Inventories

Inventories increased to EUR 202.2 million from EUR 101.8 million in 2017. The main part of the inventory at the end of 2018 was energy farms, which were constructed and had been taken into operation. The total year-end value of energy parks in operation was EUR 132.8 million compared to EUR 0 in 2017. The increase in finished goods in inventory has given optimal conditions for the Group to increase the expected sale of energy parks in 2019, which is the reason for the increased outlook for the results for the coming financial year.

European Energy's focus is on evaluating the likelihood of a project's success and projects are reviewed on an ongoing basis with the aim of making impairments, if needed. A special focus is placed on projects in the early development stages (before construction). Only EUR 1.0 million was recognised as scrapped projects in 2018, where the value in 2017 was 3.5 million.

Management's review

The Group has, over the year, increased the focus on acquiring projects in the early stages of development. Together with the ongoing practice of buying ready-to-build projects, this diversifies the risk to the Group. During the year, the value of projects under development increased from EUR 3.3 million in 2017 to EUR 13.8 million in 2018. At the end of 2018, the energy farms under construction were worth EUR 55.6 million compared to EUR 98.6 million in 2017.

Deferred tax

Net deferred taxes in the balance sheet fell from a net asset of EUR 0.9 million in 2017 to a liability of EUR 1.2 million in 2018. The decrease was caused by the use of tax losses in countries where European Energy had profitable activities during the year.

Other receivables

Other receivables (current and non-current in total) decreased in 2018 from EUR 26.6 million to EUR 16.3 million. The decrease is partly related to the deconsolidation of the Brazilian solar farms where loans to non-controlling interests mainly regarding the construction of solar farms in Brazil, is no longer part of the other receivables. The Group also received the repayment of loans to business partners in connection with the repayment of the bond loan of EUR 7.6 million.

Non-controlling interests

The non-controlling interests increased from EUR 33.0 million in 2017 to EUR 33.9 million in 2018. The increase comes mainly from the positive result of the subsidiary European Energy A/S.

Bond loan

The bond loan increased, during 2017, from EUR 60 million to EUR 85 million, and was recognised at the end of 2018 as net of debt issue costs to EUR 83.7 million vs EUR 66.5 million in 2017.

In the year, a bond loan of EUR 7.6 million was repaid at the end of its 10-year lifecycle.

Project financing

Project financing (short and long-term) has, as a result of the increased inventory level and the increase in loans to related parties, also increased from EUR 91.7 million in 2017 to EUR 213.8 million in 2018. The Group is cooperating with several financial institutions for project financing, depending on the geographic area of the construction site, the size of the project and the co-investors.

Trade payables

Trade payables decreased from EUR 16.4 million in 2017 to EUR 10.3 million at the end of 2018. At the end of 2017, the Group was constructing several energy parks, while the level of parks under construction was down by the end of 2018. This has contributed to the decrease in trade payables.

Payables to associates

Payables to related parties decreased from EUR 4.8 million in 2017 to EUR 0.5 million in 2018. Part of the decrease, EUR 4.0 million, relates to a loan from a German-associated company, which has been repaid.

Management's review

Other payables

Total non-current and current other payables increased in 2018 to EUR 18.5 million compared to EUR 13.0 million in 2017.

Cash flow statement

Operating cash flow

The cash flow from operations in 2018 was EUR -152.2 million. The negative cash flow was due to changes in working capital of EUR -172.2 million of which the increased investment in inventory counts for EUR 201.8 million. The operating cash flow in 2017 was EUR -14.1 million. Also in 2017, the increase in inventories was the reason for the negative cash flow with EUR -29.6 million.

Purchase of Plants and Equipment

In 2018, the Group acquired the offshore wind park, Sprogø, and the share price combined with purchase of equipment, gave a total use of cash for PPE of EUR 12.6 million. In 2017, the sum was EUR 0.8 million.

Equity-accounted investments

Proceeds from the disposal of equity-accounted investments landed at EUR 3.2 million, which relates to the sale of shares in 2 wind parks in Germany and 1 in Denmark. The net total of investment in equity accounted companies and loans to these, incurred a positive cash flow of EUR 8.5 million in 2018 compared to EUR 4.3 million in 2017. The increase is related to the loans to the Brazilian solar parks.

Investing activities

The total cash flow of investing activities ended at EUR -0.5 million compared to EUR 3.6 million in 2017.

Bonds

In 2018, the Group issued a new tap of Bonds of EUR 25.0 million. The net proceed from the issue was EUR 25.1 million.

The Group also repaid bonds of EUR 7.6 million. The majority of the funds used for this were loans to business partners for buying wind parks, which had been repaid to the Group.

In 2017, the Group repaid a bond loan of EUR 45 million, and had a net proceed from the issue of bonds of EUR 58.8 million.

Project financing

To finance the increase in the inventory, the Group added project financing of EUR 191.6 million during 2018, and repaid EUR 49.7 million. In 2017, the proceeds from borrowings were EUR 126.0 million and the repayment was EUR 105.5 million.

Loans to associated companies

The repayment of EUR 4.4 million loans to associated companies more or less levelled out the proceeds from net loans in 2017 of EUR 4.0 million.

Management's review

Non-controlling interests

The capital increases in companies with a non-controlling interest, gave the Group a positive cash flow of EUR 6.9 million, where the figure in 2017 was EUR 5.7 million.

Total cash flow

In total, the financing activities had a positive cash flow of EUR 161.9 million. This resulted in a total positive net cash flow for 2018 of EUR 10.2 million compared to 2017 with EUR 33.4 million.

Uncertainty with regard to recognition and measurement

Revenue recognition

Some sales contracts regarding power plants comprise a fixed and a variable consideration. The latter normally relates to an earn-out or production guarantee linked to an actual future production.

The uncertainty about measurement relates essentially to this variable consideration and allocation of revenue between different performance obligations. This measurement requires management judgement applying assumptions and estimates.

Inventory/projects valuation

Evaluating inventory, especially projects still under development, involves a risk relating to the likelihood of a project's success. Management continuously evaluates all projects on the basis of their financial viability and feasibility. In 2018, this led to a EUR 1.0 million impairment of inventory (write-off or write-down). In 2017, the impairment was EUR 3.9 million.

Management's review

Outlook

Looking back on expectations for 2018

In the annual report for 2017, the Management expected a turnover for the Group in the range of EUR 190-210 million and a profit before tax in the range of EUR 26-28 million.

With an actual revenue for 2018 of EUR 96.2 million, the revenue met the latest expectation. As described in the corporate announcement, the delay of the closing of a sale of a wind park in Italy combined with the technical elimination of the revenue from a sale to an associated company of the Group of 3 solar parks under construction, accounted for some of the reduction in revenue compared to the original outlook.

The Management also acknowledges that the different recognition methods in the annual report, depending on whether the company sells fully owned or only partly owned companies, has a big impact on the top line for the Group. The future outlook is instead now focusing on the EBITDA, which in the Management's opinion gives a better measurement of the company's results.

The actual profit before tax for 2018 was EUR 25.8 million, which was in the range expected in the annual report for 2017, and in the most recent corporate announcement about the outlook.

Outlook for 2019

EBITDA for 2019 is expected to be EUR 40-45 million (in 2018 the EBITDA was EUR 33.6 million).

The profit before tax in 2019 is expected to be EUR 30-35 million (in 2018 the profit before tax was EUR 25.9 million).

Management is looking forward to another year with good results. However, the risk factors associated with developing and constructing solar and wind projects may cause delays. The overall performance will also depend on factors such as environmental impact assessments, building permits, sudden changes in incentive schemes and the Group's success in renewable-energy auctions.

Management's review

Significant events after the reporting period

In March 2019, European Energy completed the divestment of two wind farms.

The first divestment is a wind farm in Denmark with a total capacity of 18MW to Aquila Capital, a German alternative investment manager.

The wind farm is located in the municipality of Ringkøbing-Skjern, Denmark. The wind farm was commissioned in early 2018 and consists of a total of 6 Vestas V126-3.6 MW turbines. The buyer has acquired 5 turbines, while the remaining turbine will remain in the ownership of European Energy A/S.

The second divestment, also completed in March 2019, is a divestment of a wind farm in Italy with a total capacity of 39 MW to Quercus Italian Wind 2 S.r.l, a Group company of Quercus Assets Selection S.C.A SICA.V-SIF, a Luxembourg's fund.

The wind farm is located in the municipalities of Tolve and Vaglio in the Basilicata region, Italy. The wind farm was commissioned in 2018 and consists of a total of 13 Siemens SWT 3.0-113 MW turbines.

Risk management

As a developer and asset manager of renewable energy projects, European Energy faces a number of risks, which are a natural part of its business and value creation.

European Energy's risk management is intended to continuously identify, assess and manage the business and financial risks in order to minimise their level and number.

While these risks can take on different forms and dimensions, they can, broadly speaking, be divided into market risks, operational risks, financial risks and political, regulatory and legal risks. The primary risks and the associated risk management measures are addressed below in line with these risk categories.

Market risks

The sale of electricity and the divestment of wind and solar farms involve exposure to fluctuating electricity prices in the market. In order to mitigate this market risk, European Energy enters into long-term power purchase agreements (PPAs) or secures long-term feed-in tariffs for its projects. Furthermore, geographical diversification of both development and operating projects ensures that the electricity market price risk is spread out across various different electricity markets.

Another decisive uncertainty, as well as opportunity, in European Energy's market is the consistent and fast-paced development of both solar and wind energy production technologies requiring constant adaptation and responsive project development. In order to limit its exposure to potential technological changes which favour one technology over the other, European Energy follows a dual development strategy covering both wind and solar technology. In addition, European Energy limits counterparty and technology dependency risk by contracting with varying technology suppliers across different projects.

Management's review

Operational risks

European Energy develops greenfield projects, acquires pre-developed renewable energy projects, which are at different stages of their development cycle, and participates in repowering projects.

In order to be able to continuously realise new profitable projects, European Energy relies on a broad worldwide project development pipeline, which ensures cross-border market intelligence and agility and responsiveness in the instance that market conditions change in individual markets. European Energy limits its risk exposure to specific projects or countries by selectively entering into partnerships, ensuring that development risks are appropriately shared between European Energy and its partners, which, for example, can be the original project developers.

Development costs usually constitute a minor part of the total project costs, and European Energy is typically able to discontinue a project if circumstances so warrant.

Once development projects enter the construction phase, European Energy faces construction risks such as potential delays due to unfavourable weather conditions, cost overruns or supplier dependencies. European Energy reduces these risks by conservative construction planning, which makes provisions for contingencies, and by conservative construction budgeting, which incorporates an appropriate reserve for unforeseen expenses. Furthermore, it builds on established and proven relationships with only top-tier technology providers.

Financial risks

Liquidity risks

As a developer of large-scale renewable-energy projects, European Energy naturally relies on sufficient and large amounts of liquid capital to finance construction activities. In particular, when projects enter the construction phase, they rely on timely construction financing with both equity capital, which is normally provided by the parent company, European Energy, and debt capital, which is normally provided by a bank through bridge-financing facilities, which are subsequently refinanced with long-term, non-recourse project loans once the project is operational. If sufficient capital is unavailable, the development and construction of some projects may be delayed or jeopardised all together.

In order for European Energy to mitigate the underlying liquidity risks, it dedicates considerable efforts in ongoing liquidity monitoring and forecasting of the financing needs at both Group and project level. In addition, particularly at project level, European Energy reduces liquidity risks related to construction activities by spreading and evening out supplier payments over the whole construction cycle and by early securing of construction financing with renowned and trusted banks.

Foreign currency risks

European Energy's activities abroad expose the company to fluctuations in exchange rates. The majority of European Energy's foreign exchange operations are linked to the Euro. European Energy does not hedge this risk, since the Danish fixed exchange rate policy is considered unlikely to change. Furthermore, to mitigate foreign currency risk, especially at project level, European Energy may partially finance projects in the local currency.

Management's review

European Energy assesses the need for hedging purchase orders from suppliers if the orders have substantial value and are not in local currency. This is to ensure that budgeted construction costs are not exceeded. When projects are being divested, European Energy assesses the need and possibility for hedging the entire enterprise value of the project.

Interest rate risks

At both Group and individual project level, European Energy relies on interest-bearing debt financing which exposes it to interest rate risks. European Energy counters these risks by balancing its portfolio of fixed and variable rate loans and borrowings. At project level in particular, it often avoids interest rate risks all together by engaging in interest rate hedges that cover the full maturity of the project-related loans.

Political, regulatory and legal risks

The successful development of renewable energy projects is dependent on the political and regulatory environment. While renewable energy has already reached market price competitiveness with conventional forms of energy production in favourable climate conditions, it still relies on state subsidies in many regions and countries. In order to reduce European Energy's exposure to country-specific changes in government policies and subsidy-related regulation, it follows geographic and technological diversification. In 2018, European Energy was active in 14 different countries across the globe. Furthermore, in order to decrease its political risks in relatively higher risk countries outside Europe, European Energy strives for joint venture developments in collaboration with local partners.

Management's review

Responsibilities and compliance

The Company has no significant activities besides being a holding company and therefore has no employees, administrative functions etc. As a result, the company has no policies itself. Reference is made to the policies of the European Energy Group. Please refer to below overviews as to where to locate the relevant disclosures, as they are all given on the European Energy Group website.

Responsibility

A review of European Energy's position on corporate social responsibility according to section 99a and section 99b of the Danish Financial Statements Act is available at European Energy's website: <https://www.europeanenergy.dk/en/financial-reports/>

Management diversity

A disclosure of European Energy's diversity policy, targets and current performance is available at European Energy's website:
<https://www.europeanenergy.dk/en/financial-reports/>

Corporate governance

A description of the internal control and risk management system relating to section 107b, 2, of the Danish Financial Statements Act is available at European Energy's website:
<https://www.europeanenergy.dk/en/financial-reports/>

Managerial positions

A complete list of Management positions at Group companies, Equity companies, and other companies is included in note 4.10 to the financial statements of the subsidiary European Energy A/S.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Income statement

EUR'000	Note	Consolidated		Parent company	
		2018	2017	2018	2017
Revenue	2	96,439	187,065	270	1,966
Direct costs		-60,589	-147,361	0	-449
Gross profit		35,850	39,704	270	1,517
Other income		1,182	1,400	0	0
Staff costs	3	-5,030	-6,970	0	0
Other external costs	4	-3,937	-3,879	-16	-22
Depreciation		-2,490	-1,723	0	0
Operating profit		25,575	28,532	255	1,495
Profit from subsidiaries		0	0	16,133	13,341
Profit from associates		5,795	5,432	0	0
Financial income	5	3,566	2,698	200	339
Financial expenses	6	-9,171	-9,822	-612	-779
Profit before tax		25,765	26,840	15,976	14,396
Tax	7	-3,399	-4,784	5	-184
Profit for the year	8	22,366	22,056	15,981	14,212
Non-controlling interests' share of profit for the year	8	-6,385	-7,844	0	0
The Group's share of profit for the year	8	15,981	14,212	15,981	14,212

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

EUR'000	Note	Consolidated		Parent company	
		2018	2017	2018	2017
ASSETS					
Non-current assets					
Property, plant and equipment					
	9				
Land and buildings		1,921	352	0	0
Wind power generating assets		39,990	4,309	0	0
Solar power generating assets		43,596	45,423	0	0
Tools and equipment		439	256	0	0
		<u>85,946</u>	<u>50,340</u>	<u>0</u>	<u>0</u>
Investments					
Investments in subsidiaries	10	0	0	73,741	58,020
Investments in associates	11	20,581	22,485	0	0
Other investments	12	6,765	4,961	0	0
Loans to related parties	13	0	445	0	445
Receivables from associates	13	26,701	11,041	0	0
Trade receivables and contract assets	14	4,131	5,153	0	0
Other receivables	15	5,587	11,156	2,485	2,501
Prepayments	16	9,937	0	0	0
		<u>73,702</u>	<u>55,241</u>	<u>76,226</u>	<u>60,966</u>
Total non-current assets		<u>159,648</u>	<u>105,581</u>	<u>76,226</u>	<u>60,966</u>
Current assets					
Inventories					
	17	<u>202,193</u>	<u>101,797</u>	<u>0</u>	<u>0</u>
Receivables					
Trade receivables and contract assets		9,319	9,534	2	0
Deferred tax asset	18	1,810	3,083	226	257
Other receivables		10,734	15,430	0	0
Corporation tax		0	0	9	0
Prepayments	16	1,028	453	0	0
		<u>22,891</u>	<u>28,500</u>	<u>237</u>	<u>257</u>
Cash and cash equivalents		<u>59,017</u>	<u>48,864</u>	<u>431</u>	<u>685</u>
Total current assets		<u>284,101</u>	<u>179,161</u>	<u>668</u>	<u>942</u>
TOTAL ASSETS		<u>443,749</u>	<u>284,742</u>	<u>76,894</u>	<u>61,908</u>

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

EUR'000	Note	Consolidated		Parent company	
		2018	2017	2018	2017
EQUITY AND LIABILITIES					
Equity					
Share capital		17	17	17	17
Reserve for net revaluation					
according to the equity method		0	0	71,368	55,651
Retained earnings		69,422	53,855	-1,946	-1,796
Equity attributable to the shareholder of the Company		69,439	53,872	69,439	53,872
Non-controlling interests		33,947	32,985	0	0
Total equity		103,386	86,857	69,439	53,872
Provisions					
Other provisions	19	3,066	798	0	0
Deferred tax	18	2,986	2,201	0	0
Total provisions		6,052	2,999	0	0
Liabilities other than provisions					
Non-current liabilities other than provisions					
	20				
Bond loan		83,670	58,924	0	0
Credit institutions, project financing		157,666	53,310	0	0
Amount owed to subsidiaries		0	0	6,478	6,916
Loans from related parties		63	0	63	0
Other payables		1,482	1,260	585	663
		242,882	113,493	7,126	7,579

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

EUR'000	Note	Consolidated		Parent company	
		2018	2017	2018	2017
EQUITY AND LIABILITIES					
(CONTINUED)					
Current liabilities other than provisions					
Bond loan	20	0	7,600	0	0
Credit institutions, project financing	20	56,111	38,363	0	0
Other debt, partnerships	20	411	1,624	0	0
Trade payables		10,314	16,391	327	327
Payables to associates		482	4,848	0	0
Corporation tax		1,185	811	0	51
Contract liabilities		5,960	0	0	0
Other payables		16,968	11,755	2	79
		91,431	81,392	329	457
Total liabilities other than provisions		334,312	194,886	7,455	8,036
TOTAL EQUITY AND LIABILITIES		443,749	284,742	76,894	61,908
Derivative financial instruments	21				
Mortgages and collateral	22				
Contractual obligations and contingencies	23				
Related party disclosures	24				

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Equity

Consolidated EUR'000	Share capital	Retained earnings	Total	Non- controlling interests	Total equity
Equity at 1 January 2017	17	39,570	39,587	19,401	58,971
Profit for the year	0	14,212	14,212	7,844	22,056
Value adjustments of hedging instruments	0	131	131	25	156
Other adjustments	0	-57	-57	-10	-67
Additions	0	0	0	6,480	6,480
Disposals	0	0	0	-755	-755
Equity at 31 December 2017	17	53,855	53,872	32,985	86,857
Equity at 1 January 2018	17	53,855	53,872	32,985	86,857
Profit for the year	0	15,981	15,981	6,385	22,366
Value adjustments of hedging instruments	0	-483	-483	-137	-620
Other adjustments	0	70	70	-328	-258
Additions	0	0	0	7,455	7,455
Disposals	0	0	0	12,412	12,412
Equity at 31 December 2018	17	69,422	69,439	33,947	103,386
Parent company EUR'000		Share capital	Reserve for net revalua- tion accord- ing to the equity method	Retained earnings	Total
Equity at 1 January 2017	17	42,237	-2,668	39,587	
Profit for the year	0	13,341	871	14,212	
Value adjustments of hedging instruments	0	131	0	131	
Other adjustments	0	-57	0	-57	
Equity at 31 December 2017	17	55,651	-1,796	53,872	
Equity at 1 January 2018	17	55,651	-1,796	53,872	
Profit for the year	0	16,133	-152	15,981	
Value adjustments of hedging instruments	0	-483	0	-483	
Other adjustments	0	67	3	70	
Equity at 31 December 2018	17	71,368	-1,943	69,439	

The share capital consists of nom. 125,000 shares of DKK 1 each, corresponding to EUR 17 thousand.

The share capital has remained unchanged for the last 5 years.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Cash flow statement

EUR'000	Consolidated	
	2018	2017
Profit/Loss before tax	25,765	26,840
Adjustments for:		
Financial income	-3,566	-2,698
Financial expenses	9,171	9,822
Depreciations	2,490	1,723
Profit from equity-accounted companies	-5,795	-5,432
Change in net working capital	-172,176	-33,327
Other non-cash items	-1,263	-1,400
Cash generated from operation before financial items and tax	-145,374	-4,472
Taxes paid	-776	-3,260
Interest paid and realised currency losses	-8,334	-8,874
Interest received and realised currency gains	3,269	2,473
Cash flow from operating activities	-151,215	-14,133
Purchase of Property, plant and equipment	-12,576	-815
Proceeds from disposal of equity-accounted investments	3,161	69
Investment/loans in equity-accounted investments	8,508	4,303
Purchase/disposal of other investments	252	0
Dividends	165	31
Cash flow from investing activities	-490	3,588
Proceeds from issue of bonds	25,107	58,785
Repayment of bonds	-7,600	-45,000
Proceeds from borrowings	191,594	125,974
Repayment of borrowings	-49,729	-105,527
Changes in payables to associates	-4,367	4,013
Non-controlling interests' share of capital increase or disposal of subsidiaries	6,852	5,747
Cash flow from financing activities	161,857	43,992
Change in cash and cash equivalents	10,152	33,447
Cash and cash equivalents at beginning of period	48,865	15,419
Cash and cash equivalents end of period	59,017	48,865
Of which restricted cash and cash equivalents	-7,868	-6,429
Non-restricted cash and cash equivalents end of year	51,149	42,436

The cash flow statement cannot be directly derived from the other components of the consolidated and parent company financial statements.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

1 Accounting policies

The annual report of European Energy Holding ApS has been prepared in accordance with the provisions applying to reporting class C (large) enterprises under the Danish Financial Statements Act.

The annual report is presented in EUR, and all values are rounded to the nearest thousand (EUR '000), except when otherwise indicated. Each amount is rounded individually, and therefore minor differences between total amounts and the sum of underlying amounts may occur. At 31 December 2018, the EUR/DKK rate was 7,4679 (31 December 2017: 7,4449).

The accounting policies used are consistent with those of last year.

Recognition and measurement

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

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

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

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the interim financial statements that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned. Equally, costs incurred to generate the period's earnings are recognised, including depreciation, amortisation, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income or financial expenses.

Non-current assets acquired in foreign currencies are translated at the exchange rate at the transactions date.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised as other receivables or other payables in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously recognised in equity are recognised in the income statement in the period in which the hedged item affects the profit/loss for the year.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Consolidated financial statements

The consolidated financial statements comprise the parent company, European Energy Holding ApS, and subsidiaries in which European Energy Holding ApS directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Enterprises in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date.

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Non-controlling interests

In the consolidated financial statements, the items of subsidiaries are recognised in full. The non-controlling interests' proportionate shares of the subsidiaries' results and equity are adjusted annually and recognised separately in the income statement and balance sheet.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Income statement

Revenue

The Group has the following income-generating activities:

- Sale of energy farms and projects
- Sale of electricity
- Asset management and Other fees

Revenue is recognised when the Group has fulfilled its contractual performance obligations towards the buyer.

The following further explains revenue recognition for the Group's revenue streams:

Sale of energy farms and projects

The group develops and sells power generating assets mainly as turnkey projects. The solar and wind power generating assets are developed, but their construction does not commence until all relevant permits have been obtained. Special purpose vehicles (SPVs) organised as subsidiaries in the Group carry out development and construction.

The Group's performance obligations in turnkey projects include an agreement for the development and construction of a grid-connected power generating asset and an agreement for the transfer of the shares in the SPV, which holds all relevant permits. These two agreements are connected and are accounted for as one performance obligation.

Revenue from turnkey projects is recognised when control has been transferred to the buyer and European Energy has an enforceable right to payment. This occurs at the point in time when the buyer accepts the takeover.

The revenue is measured as the transaction price for the power generating asset agreed under the contract. The transaction price normally includes a fixed and a variable consideration, determined by the project's expected future cash flow based on buyer's and seller's agreement on expected return on invested capital (ROIC).

The estimated amount of variable consideration will be included in the transaction price only to the extent that a significant reversal in revenue recognised is highly unlikely to occur when the uncertainty associated with the variable consideration is subsequently resolved.

Payments deferred more than 12 months are adjusted for the time value of money.

In projects where the Group does not act as a turnkey project developer e.g. when the Group establishes transformer stations and building foundations, the revenue is recognised when control of the project has been transferred to the buyer, European Energy's performance obligations has been satisfied and European Energy is entitled to receive payment.

Sale of electricity

Revenue from sale of produced electricity is recognised when supplied to the purchaser's network provided that the electricity generation has taken place before year end and that the income can be reliably measured and is expected to be received. Revenue is measured ex. VAT and taxes charged on behalf of third parties.

Government grants for sale of electricity are intended as a compensation for the price of power and recognized under revenue in step with the power generation and the related revenue. Government grants are recognized when there is reasonable assurance that the grants will be received.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Asset management and Other fees

Revenue from Asset management and Other fees is recognised when the services are delivered. The services include commercial management and operational facility supervision on behalf of a third party. Revenue is measured ex. VAT and taxes charged on behalf of third parties.

Direct costs

Direct costs comprise costs incurred in generating the revenue for the year.

On disposal of energy farms and projects, direct costs comprise the construction costs plus costs directly related to the disposal.

Direct costs also comprise operating costs related to wind and solar power generating assets.

Other income

Other income comprises items secondary to the activities of the group.

Staff costs

Staff costs comprise wages and salaries, remuneration, pensions and other costs regarding the Company's employees, including members of the Executive Board.

Share-based payment

The fair value of warrants at grant date is recognized as an expense in the income statement over the vesting period. Subsequently, the fair value is not re measured. Such compensation expenses represent calculated values of warrants granted and do not represent actual cash expenditures. A corresponding amount is recognized in shareholders' equity as the warrant program is designated as equity-settled share-based payment transaction.

Other external costs

Other external costs comprise administrative expenses.

Depreciation and amortisation

Depreciation and amortisation comprise depreciation on property, plant and equipment as well as gains and losses on the disposal of other non-current assets than energy projects and wind and solar energy farms.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme, etc.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Tax

The parent company is subject to the Danish rules on joint taxation of the Group's Danish companies.

On payment of joint taxation contributions, the current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contributions from companies that have used these losses to reduce their own taxable profits (full absorption).

Tax for the year comprises tax on profit for the year, joint taxation contributions for the year and changes in deferred tax, including changes as a result of a change in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to changes directly recognised in equity is recognised directly in equity.

Balance sheet

Property, plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Wind power-generating plant (Wind farms)	25 years
Solar power-generating plant (Solar farms)	40 years
Fixtures and fittings, tools and equipment	3-5 years

On disposal of property, plant and equipment, the net selling price is recognised as revenue and the carrying amount of the assets is recognised as direct costs.

Investments in subsidiaries and associates

Income statement

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the parent company's income statement after the full elimination of intra-group gains/losses and less amortisation of goodwill.

The proportionate share of the individual associates' profit/loss after tax is recognised in the income statement after elimination of the proportionate share of intra-group profits/losses.

Balance sheet

Subsidiaries and associates are measured at the proportionate share of the entities' net asset values calculated according to the Group's accounting policies plus or minus unrealised intra-group gains or losses and plus or minus the residual value of positive and negative goodwill calculated according to acquisition method.

Subsidiaries and associates with negative net asset values are measured at EUR 0, and any receivables from these entities are written down by an amount equivalent to the negative net asset value if the amount owed is deemed irrecoverable. To the extent that the negative net asset value exceeds the receivable, the residual amount is recognised under provisions if the parent company has a legal or a constructive obligation to cover the subsidiary's deficit.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Net revaluation of investments in subsidiaries and associates is transferred to the reserve for net revaluation in equity according to the equity method to the extent that the carrying amount exceeds cost.

Enterprises acquired or formed during the year are recognised in the financial statements from the date of acquisition or formation. Enterprises disposed of are recognised up to the date of disposal.

On disposal of subsidiaries and associates containing energy projects or wind and solar farms, the net selling price of the equity investments is recognised in the income statement as revenue, and the carrying amount of the equity investments is recognised in the income statement as direct costs.

Gains or losses on disposal of other subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus anticipated disposal costs. These gains and losses are recognised as a separate line item in the income statement.

Other investments

Other investments recognised under non-current assets are measured at fair value with value adjustments recognised in the income statement.

Other investments are recognised at cost if the fair value cannot be determined reliably. If cost exceeds the net realisable value, write-down is made to this lower value.

Impairment of assets

The carrying amount of property, plant and equipment and investments is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

When there is an indication of impairment, each asset or a group of assets is impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net income from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories comprise energy farm projects under development and construction and as well as energy farms that have been developed for the purpose of sale and not for revenue generation from the sale of electricity production. The projects can be categorised as follows:

- Projects under development
- Projects under construction
- Operating projects for the purpose of sale

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated costs of completion and estimated selling costs. Changes in inventory write-downs are recognised in direct costs.

On disposal of projects, the net selling price is recognised as revenue, and the carrying amount of the project is recognised as direct costs.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Projects under development comprise projects for which construction has not yet been commenced. Cost comprises direct and indirect costs incurred in respect of development of projects, including interest in the project period.

Projects under construction comprise projects for which construction has begun but has not yet been completed. Cost comprises costs incurred in the development phase (projects under development) and costs in relation to the construction phase, which comprises direct and indirect costs for Subcontractors, project management and financing as well as interest in the construction period.

Operating projects for the purpose of sale comprise projects for which construction has completed. Cost comprises costs incurred in the development phase and in the construction phase.

Receivables

Receivables are measured at amortised cost. Write-down is made for expected losses at the net realisable value.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity – dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Provisions

Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are determined by discounting expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Corporation tax and deferred tax

In accordance with the Danish joint taxation rules, the administration company assumes the liability for payment to the tax authorities of the Group's corporation taxes as the joint taxation contributions are received.

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

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

Deferred tax is measured at the tax rates expected to apply in the year when the asset is realised or the liability is settled on the basis of the tax rates (and tax legislation) in force at the date of the statement of financial position.

Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

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Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year. Pursuant to section 86(4) of the Danish Financial Statement Act, information on the cash flow statement for the parent company has been omitted.

Cash flow from operating activities

Cash flow from operating activities are determined using the indirect method and stated as the consolidated profit before tax adjusted for non-cash operating items, including depreciations and impairment losses, provisions and changes in working capital, interest received and paid and corporation tax paid.

Cash flow from investing activities

Cash flow from investing activities comprise payments connected with the purchase and sale of non-current assets, including energy farms classified as property, plants and equipment and equity-accounted investments.

Cash flow from financing activities

Cash flow from financing activities include proceeds from bond issues, drawdowns, new project loans and repayment on borrowings from credit institutions.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with maturity of three months or less and an insignificant risk of changing value.

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2 Segment information

Segment information has been prepared in accordance with the Group accounting policies.

Segment income comprise those items that can be directly attributed to each individual segment on a reliable basis.

2018	Consolidated				
	Wind	Solar	Total before elim.	Elim.	Total
EUR'000					
Sale of energy farms and projects	19,045	54,596	76,641	0	73,641
Sale of electricity	10,722	9,097	19,819	0	19,819
Asset management	2,181	698	2,879	-13	2,866
Other fees	97	16	113	0	113
Revenue to external customers	32,045	64,407	96,452	-13	96,439
Inter-segment revenue	6,169	1,161	7,330	-7,330	0
Revenue	38,214	65,568	103,782	-7,343	96,439

2017	Consolidated				
	Wind	Solar	Total before elim.	Elim.	Total
EUR'000					
Sale of energy farms and projects	120,027	56,891	176,918	-1,617	175,301
Sale of electricity	2,918	7,149	10,067	0	10,067
Asset management	1,005	575	1,580	0	1,580
Other fees	112	6	118	0	118
Revenue to external customers	124,061	64,621	188,682	-1,617	187,065
Inter-segment revenue	4,218	2,684	6,902	-6,902	0
Revenue	128,279	67,305	195,584	-8,519	187,065

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EUR'000	Consolidated	
	2018	2017
2 Geographical information		
Denmark	76,490	53,928
Northern/Central Europe	12,048	111,557
South America	0	16,089
Southern Europe (incl Maldives)	7,901	5,491
Total revenue	<u>96,439</u>	<u>187,065</u>
3 Staff costs		
Wages, salaries and remuneration	11,231	9,061
Share-based compensation	197	0
Pensions	35	50
Other social security costs	101	86
Other staff costs	554	418
Capitalised salaries on inventories	<u>-7,091</u>	<u>-2,645</u>
Total staff costs	<u>5,030</u>	<u>6,970</u>
Average number of full-time employees	<u>95</u>	<u>74</u>
Number of full-time employees end of period	<u>96</u>	<u>77</u>

Pursuant to section 98b(3)(ii) of the Danish Financial Statements Act, information on remuneration of the Executive Board has been omitted.

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3 Staff costs (continued)

Share-based payment

Warrant program

European Energy A/S has granted warrants to management, board members and individual selected staff members based on years of employment and profession.

The warrant program runs up to 5 years, and the total number of shares in the program equals up to 5 % of European Energy A/S' share capital or DKK 15M (EUR 2M). The scheme is based on issuance of warrants that give the right to apply for new shares in European Energy in the future.

Subscription for new shares by exercise of issued warrants must be made by paying cash contribution to European Energy A/S. Vesting schedule is 36 months. Vested warrants may be exercised in two annual exercise periods that run for 21 days from and including the day after the publication of (i) the annual report and (ii) the six-month interim report.

For 2018, the starting year for the program, the board in European Energy A/S has approved the first issuance of warrants up to a total of 1% of the shares equal to 3M shares.

Weighted Average Remaining contractual life for outstanding warrants at year-end is 9 years.

For exercised warrants in 2018 the weighted average share price during the period amounted to DKK 3,10.

Outstanding warrants at the end of 2018 may be exercised at a price that increase by 5% per year, i.e. at the range of DKK 3,26 – 4,65.

Valuation assumptions for warrants granted

Based on a weighted average fair value per warrant of DKK 0,89 the total fair value of warrants granted in 2018 amounted to EUR 0.3M, of which EUR 0.2M is recognized in the income statement at 31 December 2018.

The fair value of warrants granted is calculated using the Binomial model. The Binomial pricing model requires the input of subjective assumptions such as:

- a) The estimated share price of European Energy (unlisted shares).
- b) Volatility, based on historical volatility for a peer group.
- c) Risk-free rate, based on Danish government bond.
- d) Expected life of warrants, which is based on vesting terms, exercise price and exercise periods.

These assumptions can vary over time and can change the fair value of future warrants granted.

4 Audit fees

EUR'000

	Consolidated	
	2018	2017
Statutory audit	232	287
Tax advice	5	22
Other non-audit services	97	174
Total to the auditors appointed by the Annual General Meeting	334	483

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EUR'000	Consolidated		Parent company	
	2018	2017	2018	2017
5 Financial income				
Interest income, financial assets measured at amortised costs	962	1,225	200	241
Interest income, group enterprises and associates	1,839	626	0	98
Interest income, bonds	34	32	0	0
Dividends	165	31	0	0
Currency gains	566	784	0	0
	<u>3,566</u>	<u>2,698</u>	<u>200</u>	<u>339</u>
6 Financial expenses				
Interest on bonds	5,733	4,202	0	0
Interest expense, bank	4,026	2,895	2	0
Interest expense, subsidiaries and associates	96	0	548	722
Financial expenses that have been capitalised on inventories	-2,219	-987	0	0
Amortisation of debt issue costs	531	571	0	0
Other financial expenses	543	1,378	61	57
Currency losses	460	1,763	0	0
	<u>9,171</u>	<u>9,822</u>	<u>612</u>	<u>779</u>
7 Tax				
Tax on profit for the year	1,683	3,365	-9	51
Change in deferred tax	1,622	1,359	30	145
Adjustment to tax relating to previous years	93	60	-26	-11
	<u>3,399</u>	<u>4,784</u>	<u>-5</u>	<u>184</u>
8 Proposed profit appropriation				
Reserve for net revaluation according to the equity method	0	0	16.133	13.341
Non-controlling interests' share of profit for the year	6.385	7.844	0	0
Retained earnings	15.981	14.212	-152	871
	<u>22,366</u>	<u>22,056</u>	<u>15,981</u>	<u>14,212</u>

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9 Property, plant and equipment

Consolidated

EUR'000	Land and Buildings	Wind power generating assets	Solar power generating assets	Tools and equipment	Total
Cost at 1 January 2018	352	4,865	58,431	1,038	64,686
Exchange rate adjustments	0	-13	2	0	-11
Additions	0	12,081	195	300	12,576
Deconsolidated entities	0	0	-588	-12	-600
Transfer from inventory	1,569	24,520	0	0	26,089
Cost at 31 December 2018	1,921	41,453	58,039	1,326	102,739
Depreciation and impairment losses at 1 January 2018	0	-556	-13,008	-782	-14,346
Depreciation	0	-907	-1,473	-110	-2,490
Disposals	0	0	38	5	43
Depreciation and impairment losses at 31 December 2018	0	-1,463	-14,443	-887	-16,793
Carrying amount at 31 December 2018	1,921	39,990	43,596	439	85,946
Depreciated over		25 years	40 years	3-5 years	

10 Investments in subsidiaries

EUR'000	Parent company	
	2018	2017
Cost at 1 January	2,372	2,372
Cost at 31 December	2,372	2,372
Value adjustments at 1 January	55,648	42,233
Share of profit for the year	16,133	13,341
Hedges, net of tax	-483	131
Dividends received	-3	0
Other value adjustments	73	-57
Value adjustments at 31 December	71,368	55,648
Carrying amount at 31 December	73,741	58,020

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10 Investments in subsidiaries (continued)

Ownership shares in subsidiaries can be specified as follows:

Name	Country of place of business	Ownership % 31/12 2018
European Energy A/S	DK	75.9898%
European Solar Farms A/S *)	DK	13.88%
Komplementarselskabet Sydjylland Vindmøllelaug ApS under frivillig likvidation	DK	100,00%

*) The company's directly owned share capital of European Solar Farms A/S amounts to 13,88%. Through the subsidiary European Energy A/S the company has majority control of European Solar Farms A/S.

The following indirect subsidiary has no activity in 2018 and has therefore abstained from preparing annual report for 2017 in accordance with the Danish Financial Statements Act § 6. The company is consolidated in the European Energy Holding Group:

European Energy Bond Buy Back ApS	DK	100%
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11 Investments in associates

	Consolidated	
	2018	2017
EUR'000		
Cost at 1 January	17,745	16,940
Additions for the year	623	40
Disposals for the year	-1,707	-710
Transfer	-608	1,474
Cost at 31 December	16.052	17,745
Value adjustments at 1 January	2,559	399
Profit for the year	5,795	5,432
Reversed value adjustments on disposals and transfers	-1,863	0
Dividend and other value adjustments	-4,391	-3,271
Value adjustments at 31 December	2,100	2,559
Carrying amount at 31 December	18,152	20,304
Investment in associates	20,581	22,485
Set-off against receivables from associates	-2,429	-2,180
Total	18,152	20,304

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11 Investments in associates (continued)

Ownership shares in associates can be specified as follows:

Name	Country of place of business	Ownership % 31/12 2018
NPP Brazil I K/S *)	DK	51,0%
NPP Brazil II K/S *)	DK	51,0%
Nordic Power Partners P/S *)	DK	51,0%
NPP Komplementar ApS *)	DK	51,0%
EE Sieben Drei GmbH & Co. KG	DE	50,0%
EE Sieben Null GmbH & Co. KG	DE	50,0%
EE Sieben Zwei GmbH & Co. KG	DE	50,0%
EE Süstedt ApS & Co KG	DE	50,0%
EEA Renewables A/S	DK	50,0%
EEA Stormy ApS	DK	50,0%
EEA SWEPOL A/S	DK	50,0%
EEA Verwaltungs GmbH	DE	50,0%
EEGW Persano ApS	DK	50,0%
EFW Eins Sieben GmbH & Co. KG, Germany	DE	50,0%
EFW Fünf Vier GmbH & Co. KG, Wittstock	DE	50,0%
Greenwatt Ahvenneva Oy Ab	FI	50,0%
Greenwatt Honkakangas Oy Ab	FI	50,0%
GWE Contractors K/S	DK	50,0%
Jammerland Bay Nearshore A/S	DK	50,0%
Komplementarselskabet GWE Contractors ApS	DK	50,0%
Komplementarselskabet Mexico Ventures ApS	DK	50,0%
Mexico Partnership P/S	DK	50,0%
Omø South Nearshore A/S	DK	50,0%
Solarpark Vandel Services ApS	DK	50,0%
Süstedt Komplementar ApS	DK	50,0%
Vergil ApS & Co KG	DE	50,0%
Windcom Sp. z o.o.	PL	50,0%
Windpark Hellberge GmbH & CO KG	DE	50,0%
Wind Energy OOD	BG	49,0%
Wind Power 2 OOD	BG	49,0%
Wind Stream OOD	BG	49,0%
Wind Systems OOD	BG	49,0%
Komp. Sprogø OWF ApS	DK	44,8%
Solarpark Vandel GmbH	DE	42,5%
UW Gilmerdingen GmbH & C. KG	DE	40,0%
UW Lohkamp ApS & Co KG	DE	40,0%
WK Ottenhausen GmbH & Co. KG	DE	39,4%
European Wind Farms Invest No. 2 A/S	DK	36,6%
Nøjsomheds Odde WTG 2-3 ApS	DK	33,5%
Parco Eolico Carpinaccio Srl.	IT	26,3%
Energy 3 DOO	BA	25,5%
EFW Fünf Eins GmbH & Co. KG	DE	25,0%
ESF Spanien 0424 GmbH	DE	20,8%
Driftsselskabet Heidelberg ApS	DK	49,5%
Komplementarselskabet Heidelberg ApS	DK	49,5%
<i>Associates transferred to other investments in 2018</i>		
Windpark Wriezener Höhe GmbH & Co. KG	DE	15,0%
<i>Associates transferred to subsidiaries in 2018</i>		
Greenwatt Koiramäki Oy Ab	FI	100,0%
Greenwatt Mustalamminmäki Oy Ab	FI	100,0%
Måde Wind Park ApS	DK	100,0%
Västanby Vindbruksgrupp i Fjellie AB	SE	100,0%

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11 Investments in associates (continued)

Name	Country of place of business	Ownership % 31/12 2018
<i>Associates sold or liquidated in 2018</i>		
European Energy Nearshore Consortium P/S	DK	0,0%
European Energy Offshore Consortium P/S	DK	0,0%
GWE Stormy ApS	DK	0,0%
Komplementar EENC ApS	DK	0,0%
Komplementar EEOC ApS	DK	0,0%
Nøjsomheds Odde Wind Park ApS	DK	0,0%
Windpark Unseburg Nord GmbH & Co. KG	DE	0,0%

*) In 2018, European Energy lost control of the companies as a consequence of a change in the management of the subsidiaries. Therefore, the companies were deconsolidated, and classified as associates in the group. The deconsolidation has no cash flow effect and is adjusted for in the consolidated statement of cash flow.

12 Other investments

	Consolidated	
	2018	2017
EUR'000		
Cost at 1 January	3,561	3,512
Additions for the year	1.299	219
Disposals for the year	-316	-170
Cost at 31 December	4,544	3,561
Value adjustments at 1 January	1,400	0
Value adjustments during the year	821	1,400
Value adjustments at 31 December	2,221	1,400
Carrying amount at 31 December	6,765	4,961

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13 Loans to related parties

Non-current receivables have no specific repayment terms. The loans are established as a part of the financing of wind and solar farms, and will typically be repaid when a project is sold.

14 Trade receivables and contract assets

Out of non-current trade receivables EUR 459 thousand (2017: EUR 759 thousand) is expected to be recovered more than 5 years after the balance sheet date.

15 Other receivables

EUR'000	Consolidated		Parent company	
	2018	2017	2018	2017
Interest-bearing loan to MDP Invest ApS and JPZ Assistance ApS	1,900	1,837	1,900	1,837
Interest-bearing loan to Vores Sol Nakskov I-VI K/S	585	663	585	663
Interest-bearing loan to business partner for the acquisition of energy farms	3,102	8,656	0	0
Total other receivables (non-current assets)	<u>5,587</u>	<u>10,587</u>	<u>2,485</u>	<u>2,446</u>

There is no exact repayment date of loans in the parent company.

16 Prepayments

Prepayments recognised as assets comprise primarily of prepaid expenses for wind mills and prepayments related to land lease agreements and are measured at cost.

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17 Inventories

EUR'000	Consolidated	
	2018	2017
Cost at 1 January	110,698	79,532
Additions for the year	259,113	158,680
Disposal of the year (transferred to Property, Plant and Equipment)	-26,089	-352
Disposal of the year (recognised as direct cost)	-57,654	-126,625
Deconsolidated entities	-74,943	0
Transfer/reclassification	-922	-162
Write offs of the year	-83	-375
Cost at 31 December	210,120	110,698
Write-downs at 1 January	-8,901	-7,331
Transfer/reclassification	922	162
Disposals of the year	861	0
Deconsolidated entities	165	0
Transferred to associates	0	1,809
Write-downs for the year	-874	-3,541
Write-downs at 31 December	-7,927	-8,901
Carrying amount at 31 December	202,193	101,797
Inventory at 31 December comprises:		
Operating	132,778	0
Under development	13,825	3,292
Under construction	55,590	98,505
Total inventory at 31 December	202,193	101,797
Total wind farms	197,160	62,623
Total solar farms	5,033	39,174
Total inventory at 31 December	202,193	101,797

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18 Deferred tax

EUR'000	Consolidated		Parent company	
	2018	2017	2018	2017
Deferred tax at 1 January	882	1,753	257	439
Change in deferred tax recognised in income statement	-1,622	-1,360	-30	-145
Deferred tax on changes in equity	276	-59	0	0
Adjustment relating to the disposal/purchase of equity-accounted investments	-550	748	0	0
Other equity regulation / joint taxation contribution	-161	-198	0	-37
	<u>-1,176</u>	<u>882</u>	<u>227</u>	<u>257</u>
Deferred tax is recognised as follows:				
Deferred tax asset	1,810	3,083	227	257
Deferred tax liability	<u>-2,986</u>	<u>-2,201</u>	<u>0</u>	<u>0</u>
	<u>-1,176</u>	<u>882</u>	<u>227</u>	<u>257</u>

The recognition of deferred tax assets is based on an analysis of future income in the next three to five years. The analysis is based on an expectation of steady development and, in general, reasonable assumptions.

Deferred tax assets are substantially attributable to tax losses carried forward.

Tax losses carried forward not recognised in the balance sheet amounts to EUR 0.3 mio. (2017: EUR 1.7 mio.).

Deferred tax liabilities are substantially attributable to temporary differences on wind and solar power generating assets.

19 Other provisions

Demolition costs

The provision relates to expected demolition costs to dismantle and remove wind and solar farms. These provisions are recognised when the Company has a legal and constructive obligation at the date of the statement of financial position and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions that are expected to be settled more than a year from the date of the statement of financial position are measured at net realisable value. The value of the dismantling costs is recognised in the value of non-current assets and is depreciated together with the relevant assets. The financial statements include a provision for future costs arising from the demolition costs and removal of wind and solar farms. Based upon Management's expectations for the maturity of the provisions, the provision is recognised as a non-current liability.

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20 Financial liabilities

Consolidated EUR'000	Debt at 1/1 2018	Total debt at 31/12 2018	Current portion	Non-current portion	Outstanding debt after 5 years
Issued bonds	66,524	83,670	0	83,670	0
Project financing	91,390	213,777	56,111	157,666	49,627
Other debt to credit institutions	283	0	0	0	0
Other debt relating to acquisitions of companies	2,221	1,309	411	898	303
Loans from related parties	0	63	0	63	0
Other debt	663	585	0	585	0
	<u>161,081</u>	<u>299,404</u>	<u>56,522</u>	<u>242,882</u>	<u>49,930</u>

In 2017, the Group issued its own bond series with a total nominal value of EUR 60 million. The issued bonds carry variable interest based upon a fixed spread and a variable part related to the Euribor. The bonds have a four-year lifecycle and are traded on Nasdaq, Copenhagen. In March 2018 the Group increased the outstanding 03/2018 EUR 60 million loan with a tap of EUR 25 million. The proceeds are used to help fuel further growth and support European Energy's construction and development pipeline and for general corporate purposes. The subsequent bonds have been listed on Nasdaq Copenhagen A/S.

Parent company

EUR'000					
Amount owed to subsidiaries	6,916	6,478	0	6,478	0
Loans from related parties	0	63	0	63	0
Other debt	663	585	0	585	0
	<u>7,579</u>	<u>7,126</u>	<u>0</u>	<u>7,126</u>	<u>0</u>

No specific conditions for repayment of outstanding balances with subsidiaries have been agreed.

21 Derivative financial instruments

Interest rate swaps

EUR'000	Consolidated	
	2018	2017
Maturity less than 1 year	7,104	0
Maturity 1-5 years	0	4,885
Maturity more than 5 years	35,928	0
Total Nominal value	<u>43,032</u>	<u>4,885</u>
Fair value liability, included in Project financing	<u>1,779</u>	<u>876</u>
Change in fair value recognized in Equity	<u>-903</u>	<u>230</u>

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21 Derivative financial instruments (continued)

Forward currency exchange contracts

EUR'000	Consolidated	
	2018	2017
Maturity less than 1 year	14,500	0
Maturity 1-5 years	0	0
Maturity more than 5 years	0	0
Total Nominal value	14,500	0
Average hedged rate per 1 EUR	4.5 BRL	
Fair value liability, included in Other payables	90	0
Change in fair value recognized in Equity	90	0

European Energy A/S has hedged currency risk related to Brazilian investments in associated companies.

22 Mortgages and collateral

Contingent Liabilities and Other Financial Liabilities

EUR million	Consolidated	
	2018	2017
Guarantees related to contracts with deferred payments (excl. VAT)	7	86
Guarantees related to financing agreements	15	24
Guarantees, warranties and other liabilities related to SPA's	6	3
	28	113

Leases

EUR million	Consolidated	
	2018	2017
0-1 year	0.9	0.6
1-5 years	1.6	1.3
After 5 years	3.7	3.9
	6.2	5.8

Leases that substantially transfer all risks and rewards incidental to ownership of the asset to the Group are finance leases. All other leases are operating leases. Lease payments under operating leases are recognised in the income statement as an expense on a straight-line basis over the term of the lease. The Group has only leases classified as operating leases.

Operating leases have been recognised in the income statement for 2018 at the amount of EUR 925 thousand (2017: 676 thousand), with contingent rents constituting EUR 306 thousand (2017: EUR 367 thousand). The rental contract related to buildings has to be extended and renegotiated in 2020. The terms for land lease contracts are typically 25 years and have to be extended 6 months before the original lease ends.

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22 Mortgages and collateral (continued)

Security for debt

Assets provided as security

Wind and solar farms with a carrying amount of EUR 41 million (2017: EUR 42 million) are pledged as security for the Group's debt to Credit Institutions, etc., a total of EUR 25 million, (2017: EUR 28 million). Moreover, specific cash at bank of EUR 8 million (2017: EUR 6 million) have been provided as collateral. The Group has provided a pledge in shares of local SPV's for the project financing loan of EUR 72 million (2017: EUR 77 million).

The group company and certain subsidiaries have provided ordinary declarations of subordination to lenders to the subsidiaries with the effect that intra-group loans granted to certain group companies are subordinated to the external debt. In addition, dividends from certain German limited partnerships are contingent on adequate account balances in collateral accounts in accordance with agreements concluded with German credit institutions financing first mortgages. Furthermore, the parent company has provided some of the subsidiaries with a letter of subordination.

23 Contractual obligations and contingencies

Contingent liabilities

Pending lawsuits

The Group is a party in minor pending lawsuits regarding the Group's current operations. In Management's opinion, the outcome of these lawsuits will not affect the Group's financial position to any significant extent other than that already recognised in the assets and liabilities in the Group's balance sheet at the end of the period.

Guarantees, warranties and other liabilities related to divestments

When selling directly owned subsidiaries, the company provides customary warranties and guarantees to the purchaser, including warranties and guarantees related to the corporate status of the subsidiary, taxes, environmental matters, rights and permits of the project concerned etc. The warranties and guarantees are often provided for a period of two to five years. Furthermore, the company has in some instances provided similar customary warranties and guarantees in favour of the purchaser when indirect subsidiaries have been sold. In these cases, the warranties and guarantees are provided in addition to similar warranties and guarantees provided by the selling subsidiary itself.

In some cases, in addition to customary warranties and guarantees the company may also provide a buyer with specific indemnities that relate to specific issues that cannot be resolved until the sale is completed. This could, for instance, be related to the company's ensuring that certain project-related contracts are amended.

Guarantees, warranties and specific indemnities are only included with an amount below to the extent they relate to circumstances that the company either cannot control or is unaware of or where the company knows that an obligation exists, but its amount is unknown (for instance, an indemnity related to a reduction in a wind farm's production in those cases where a reduction is certain to occur, but the exact size is uncertain).

The subsidiary European Energy A/S has in 2017 entered a contract obligating the company for a 15-year period to deliver green certificates and guarantee the counterparty's fixed price for buying electricity (financial instrument). Necessary permits for building the associated renewable energy plants have not been received and could delay and breach European Energy A/S performance obligations. Given the uncertainty linked with the outstanding permits execution of the financial instrument is uncertain and has not been recognized in the consolidated financial statements as at 31 December 2018. The Company has provided the counterparty with guarantees of EUR 2.1 million in cover of the Company's performance obligations.

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23 Contractual obligations and contingencies (continued)

Earn-outs included in sales agreements that relate, e.g., to the performance of a park are not treated as contingent liabilities but affect the valuation of the corresponding receivables.

Pledges and guarantees related to financing agreements

The group has provided security (in the form of parent company guarantees and share pledges) in order to secure certain subsidiaries' financial obligations towards third parties during the construction of facilities related to renewable energy projects. Additionally, the company has also guaranteed other loans obtained by certain subsidiaries to the extent permitted by the terms and conditions governing the bonds issued by the company.

A number of the company's subsidiaries that act as project vehicles (i.e., subsidiaries in which the development and construction of wind farms and PV plants take place) have provided security to their lenders in order to secure their debt. The securities typically encompass all assets of the company itself, including pledges regarding the operating assets; reserve accounts; trade receivables, including insurance pay-outs; VAT receivables; real estate, if any; and right of subrogation into agreements covering the project construction and operation, including agreements regarding land leases, cable rights and grid connection. In some cases, the security provided may be less inclusive and only cover a specific asset or asset class.

Contractual obligations

The parent company is jointly taxed with the Danish subsidiaries. The companies included in the joint taxation have joint and unlimited liability for Danish corporation taxes, etc. The corporation tax payable by the parent company is EUR 1 million in 2018 (2017: EUR 1 million).

Contingent assets

A number of Group companies that own solar photovoltaic plants in Spain have dispatched a notice to the Spanish government under Article 26 of the Energy Charter Treaty, requesting that the government settle an alleged breach amicably. Should the dispute amicably, the Group companies may submit the dispute for resolution in accordance with the Energy Charter Treaty. The size of the claims has not been ultimately established but will likely be in the range of EUR 40-60 million. However, if the companies are successful, the anticipated financial impact on the Group will be less than the aggregate size of the claims, as the costs associated with arguing the case are substantial, possibly as much as 30-40% of the damages awarded. The notice to the Kingdom of Spain regarding the Group's lost revenue due to retroactive changes in the legislative system for solar PV is not recognised as an asset in the balance sheet at the end of the period.

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24 Related party disclosures

Related parties

Related parties in European Energy Holding ApS include the following:

- Subsidiaries in European Energy Holding
- Subsidiaries and associates in European Energy Group
- Board members in European Energy A/S

Related party transactions

The transactions with related parties for the year are set out as below.

EUR'000	Consolidated		Parent company	
	2018	2017	2018	2017
Related party transactions				
Sale of services to affiliates	37	25	3	1.387
Cost of services from affiliates	0	0	-11	-11
Interest income from affiliates	1	0	1	16
Interest expenses to affiliates	-69	-55	-610	-777
Loans to related parties				
Loans to affiliates, carrying amount	0	445	0	445
Loans from related parties				
Loans from affiliates, carrying amount	648	663	7.126	7.579

Controlling interest

The shareholder Knud Erik Andersen has the controlling interest of the company through:

- KEA Holding I ApS, Gyngemose Parkvej 50, 2860 Søborg

Consolidated financial statement

European Energy Holding ApS is included in the consolidated financial statement for KEA Holding I ApS, Gyngemose Parkvej 50, 2860 Søborg.